

3

EXTENSION OF TENURE OF GOVERNMENT CONTROL OF RAILROADS

STATEMENTS

OF

HON. W. G. MCADOO
DIRECTOR GENERAL OF RAILROADS

BEFORE THE

INTERSTATE COMMERCE COMMITTEE OF THE
UNITED STATES SENATE

JANUARY 3 AND 4, 1919



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EXTENSION OF TENURE OF GOVERNMENT CONTROL OF RAILROADS.

FRIDAY, JANUARY 3, 1919.

UNITED STATES SENATE,
COMMITTEE ON INTERSTATE COMMERCE,
Washington, D. C.

The committee met, pursuant to call of the chairman, at room 410, Senate Office Building, at 11 o'clock a. m., Senator Ellison D. Smith presiding.

Present: Senators Smith (chairman), Pomerene, Myers, Saulsbury, Lewis, Gore, Underwood, Cummins, Townsend, La Follette, Pindexter, McLean, Watson, and Kellogg.

There were also present: Mr. Daniel Willard, president of the Baltimore & Ohio Railroad Co.; Alfred P. Thom, general counsel, railways executives committee; S. T. Bledsoe, general counsel, Atchison, Topeka & Santa Fe Railroad; Howard Elliot, president of the New York, New Haven & Hartford Railway Co.; Bird M. Robinson, representing the American Short Line Railroads; S. N. Felton, president of the Chicago & Great Western Railroad; Sibert L. Witman, representing the Philadelphia & Reading Railroad; J. Kruttschnitt, Southern Pacific lines; Charles E. Elmquist, president National Association of Railway and Utilities Commissioners, Washington, D. C.; Glen E. Plumb, representing the railway brotherhoods, Chicago, Ill.; Richard Waterman, representing the Chamber of Commerce of the United States, Washington, D. C.; Clifford Thorne, of Iowa.

The CHAIRMAN. The committee will come to order. We have met for the purpose of discussing the railroad situation, and at this meeting particularly with reference to the recommendation made by the Director General of Railroads with respect to the five-year tenure under present conditions.

Mr. McAdoo, the Director General, is present, and the committee would like to have him state whatever facts or suggestions he sees proper to submit, and any other matters pertaining to the subject which he may care to discuss.

Senator CUMMINS. Mr. Chairman, is it understood that Mr. McAdoo will proceed and conclude his statement without interruption?

The CHAIRMAN. That is entirely with him. If he prefers to proceed and conclude his statement without interruption in order to preserve the continuity, that course will be pursued.

Director General McADOO. I should like that procedure very much, Mr. Chairman.

Senator CUMMINS. I should, myself, prefer to hear a statement made in its entirety without interruption.

Director General McADOO. And after it is completed, of course I shall be very glad to answer any questions that may be asked.

The CHAIRMAN. Then it will be understood that the Director General will make his statement without interruption.

**STATEMENT OF HON. WILLIAM G. McADOO, DIRECTOR
GENERAL OF RAILROADS.**

Director General McAdoo. Mr. Chairman and gentlemen of the committce, I have felt that it would be useful, perhaps, if I gave a general outline of the work which has been accomplished in the past year of Federal control, and then to follow that with some of the reasons why I feel that the extension of the period of Federal control for a further test under peace conditions would be wise and helpful.

This statement has been prepared under very great pressure; it is longer than I should like to have it, but the subject is so vast and complex, and the field we have entered into in the past year is so great that it is impossible to do justice to it in a brief statement.

To review the results of the past year of Federal control, it is helpful first to survey the railroad conditions that immdiatey preceded that control.

(1) For several years railroads in seasons of heavy business had developed conditions of transportation stringency similar to the conditions of financial stringency that characterized our banking situation prior to the passage of the Federal reserve act, but the periods of transportation stringency were even more frequent and more pronounced. It was impracticable for the scores of different railroad companies to depart from their competitive practices and join in a coordination of facilities and effort so as to meet the traffic demand made upon them and enable them to handle their "peak load" successfully. These competitive rivalries prevented any sort of central control of the traffic itself. Therefore it was impossible to stop the loading of traffic which could not be promptly disposed of at destination, or to encourage movement to destinations where the traffic could be promptly handled. To an important extent there was inadequacy of terminal facilities and a serious lack of coordination and use of those in existence. In the fall of 1916 the transportation stringency reached such a point that traffic was almost paralyzed through inability to dispose of it at destination. In the fall of 1917, despite strenuous efforts, and yet under a larger degree of coordination than had ever before been attempted, to prevent such a situation, a paralysis of the transportation situation again occurred. These conditions were most aggravated in the territory east of Chicago and St. Louis and north of the Ohio and Potomac Rivers, but the acute conditions in this territory reacted unfavorably on the transportation situation throughout the rest of the country, damming up the traffic on connecting lines and producing congestion and distress throughout the country.

The seriousness of the situation is shown by the fact that on January 1, 1918, there were reported on all roads a total of nearly 145,000 cars accumulated on account of the congestion which prevailed in the territory east of Chicago and St. Louis and north of the Ohio and Potomac in excess of the normal movement.

Very serious conditions of car shortage existed both in the fall of 1916 and in the fall of 1917. In 1916 the situation became so critical that a special investigation was inaugurated by the Interstate Commerce Commission, with the result that under date of December 28, 1916, Commissioner McChord made a report in which he stated that "in some territories the railroads have furnished but a small part of

the cars necessary for the transportation of staple articles of commerce, such as coal, grain, lumber, fruits, and vegetables." He added:

In consequence mills have shut down, prices have advanced, perishable articles of great value have been destroyed, and hundreds of carloads of food products have been delayed in reaching their natural markets. In other territories there have been so many cars on the lines of the carriers and in their terminals, that transportation service has been thrown into unprecedented confusion, long delays in transportation have been the rule rather than the exception, and the operation of established industrial activities has been uncertain and difficult.

In its report of December 1, 1916, the Interstate Commerce Commission, after reviewing the car shortage situation in detail (this was a year prior to Government control) and telling of investigations into conditions at widely separated points, said:

Substantially all told the same story of failure of transportation facilities and resulting embarrassment and losses. It abundantly appeared that the movement of loaded cars was in the main and on the whole very slow. The time of movement of grain from Iowa points to Chicago was shown to be as slow as 2 days and as high as 25 days, the greater part taking from 4 to 8 days. Serious delays to loaded cars in switching to points of unloading at large terminals and in passing through such terminals out to other cities, explained much of the failure in car service.

I need not recount the various expedients adopted by the railroads under private control to bring order out of the railroad chaos, none of which was adequate or successful. The railroad executives of the country tried valiently during 1917 to solve the problem. Most of them patriotically sought to find means of keeping the transportation system functioning. Competitive and private control, however, were unequal to the task.

(2) The great movement of traffic overseas without satisfactory coordination of rail and ocean transport, the heavy building operations in the way of construction of cantonments, shipbuilding plants, storage depots, munitions plants, etc., the transfer to war activities of the ships and tugs of the coastwise service, thereby throwing still another new burden on the railroads, the increasing and exacting movement of troops—all these operated to accentuate difficulties and develop the grave weaknesses inherent in the uncoordinated competitive activities of all the different railroad companies.

(3) These difficulties were further accentuated by inability to get promptly new locomotives which had been ordered (but which could not be delivered because much of the locomotive output was being devoted to our allies) and to an entire absence of any locomotives in the reserves of the railroad companies.

Many lines had entirely inadequate facilities for repairing the locomotives they own. This is shown by the fact that up to December 14, the total number of locomotives sent to other line shops for repairs were 2,220. For instance, 423 locomotives of the Baltimore & Ohio were repaired in the shops of other lines, while Baltimore & Ohio shops repaired only 24 locomotives belonging to other lines, leaving the net assistance received by the Baltimore & Ohio 399 locomotives; 201 locomotives of the Pennsylvania Lines West were repaired in other line shops, while the shops of the Pennsylvania Lines West repaired only 25 locomotives belonging to other lines, leaving the net assistance received by the Pennsylvania Lines West, 146 locomotives; 36 locomotives of the Central Railroad of New Jersey were repaired in other line shops, whereas they repaired no locomotives of other lines.

Prior to Federal control the railroads had voluntarily transferred into the congested eastern territory 107 engines from the West and

South. In addition, the Railroad Administration relocated 215 locomotives already in the East. This ability to place locomotives promptly where they were most needed regardless of the interest of any particular line greatly assisted in bringing order out of chaos.

Notwithstanding the tonnage handled during the year, which has been the heaviest ever known, there are now stored, in good condition, and ready for winter service, 1,189 locomotives, while one year ago there was not a single serviceable locomotive in storage. This improved condition has been due largely to the coordination of shop work, which has resulted in an average increase of 20.93 per cent each week in the number of locomotives receiving classified repairs.

(4) The relations with labor were of the most unsatisfactory and threatening character. The cost of living had greatly increased. Insistent demands were urged by railroad labor for corresponding increase in wages. There was no method for an amicable adjustment of labor disputes. To a large extent there appeared to be a lack of confidence on the part of labor in the management of the railroad companies if not an actual hostility thereto. There was imminent prospect of the most serious strikes that had ever threatened the railroad situation.

Senator LEWIS. Mr. Director General, if I do not interrupt you, may I ask, since you have made that statement, if the demand for increase in wages did not arise only after we came into control of the roads, but had it not been constantly existing as against the railroads then when we took charge of them?

Director General McADOO. Yes, sir; I was describing the situation.

The CHAIRMAN. Senator, before you came in, the committee had made an agreement that the Director General should proceed with his statement without interruption and then when he had concluded questions might be asked.

Director General McADOO. I am describing conditions as they existed at the time of Federal control, and those were the labor conditions at that time.

Senator LEWIS. I apologize for the interruption.

Director General McADOO. (5) The financial situation of some of the railroad companies was precarious. The rapid increase in operating costs, due to increased prices of materials and supplies and the increased expense of operating under the conditions of transportation stringency, were threatening to impair the ability of many railroad companies to meet their interest and dividends, so that the railroad plight was a serious menace to the general financial situation. Even if railroad credit had been at its best instead of at its poorest, it would have been difficult at the time to raise funds for urgently needed capital expenditures because of the credit demand of the Government and the high rates prevailing for money.

(6) The country was at war. Its industrial power was being turned into war channels. The volume of traffic to be transported for war purposes was steadily growing and promised to keep growing to a degree which could not be foreseen. The Nation's success in the war was largely dependent upon the transportation machine functioning with an efficiency surpassing anything which had ever been known in the past. Yet all the factors were rapidly converging to produce a prolonged and serious transportation paralysis.

For these reasons the President took possession and control of the railroads on December 28, 1917.

Simultaneously with his proclamation the country entered upon 10 weeks of the worst winter that had ever been known and transportation which before was slowing down in an alarming way was confronted with the danger of almost complete stoppage.

These were the conditions under which the United States Railroad Administration began its work.

CONDITIONS UNDER GOVERNMENT CONTROL.

The principal railways and transportation systems of the country have now been under the control of the Government for one year, a year marked by the participation of the United States in the greatest war in history, a year in which the railroads were required to carry a greater burden both of freight and of passenger traffic than ever before in their history, a year which began with terrific blizzards and an alarming coal shortage, a year in which enormous amounts of foodstuffs and other supplies had to be transported through the United States to the seaboard for shipment abroad, a year in which an army of millions of men had to be transported from their homes to camps and cantonments and then to the seaboard in order that they might take their places on the battlefields of France and Belgium.

The year is now behind us. In the last few months there has been an entire absence of any transportation stringency, although the traffic carried was the heaviest of even this unprecedented year. The contrast between transportation conditions during the autumn just passed and the autumns of 1916 and 1917 is marked.

I shall recount some of the things that have been accomplished.

THE MOVEMENT OF TROOPS.

From January 1, 1916, to November 10, 1918, a total of 6,496,150 troops were moved over the American railways, 4,038,918 having been transported on special trains. These movements required a total of 193,002 cars of all types including 167,232 coaches for draft and regular train movements. These troops were transported in comparative freedom from accident, due largely to the steadfast maintenance of a reasonable rate of speed.

To insure proper care and orderly movement of the immense body of men comprising the American Army and Navy, a special organization has been built up, including a railroad representative stationed at the office of each State adjutant general to cooperate in the transportation of drafted men, a man in charge of troop movements on each principal railroad, and a central organization under the Railroad Administration in Washington.

An average of 12.2 cars per train were used in the movement of troops and the speed was kept down to an average of 20 miles per hour. The special troop trains averaged 443 men.

To allow soldiers and sailors on leave to visit their families at home, the Railroad Administration put into effect a special rate of 1 cent a mile for men on furlough, an accommodation which added to morale and permitted many soldiers and sailors who otherwise could

not have afforded it to see their loved ones. A special rate of 75 cents for meals costing civilians \$1 and \$1.25 was made for soldiers and sailors. No certificates were required for such meals, the uniform of a soldier or sailor being all that was necessary.

After the signing of the armistice and the beginning of demobilization an effort was made to have the War Department to discharge the men at their homes, but this plan having been rejected, and the travel and sustenance allowance fixed by Congress having been limited to 3½ cents a mile, the Railroad Administration continued the 75-cent meal for discharged soldiers and sailors and allowed them a reduced rate of 2 cents per mile, while returning home.

Hardly had the movement of troops overseas gotten well under way before the armistice was signed with the central powers, and the work of demobilizing was begun. It is estimated that to demobilize troops under arms will involve the transportation of not less than 7,250,000 men for the creation of the Army and the sending of approximately 2,000,000 men to the points of embarkation involved the movement of 8,700,000.

At the peak of the activities incident to the prosecution of the war, it was necessary to provide for the daily movement to and from industrial plants and camps of 205,587 persons in each direction. To perform this work, 2,319 passenger equipment cars were in daily use.

MOVEMENT OF FOOD TO EUROPE.

The food situation in the allied countries of Europe became extremely critical in February last, representations being made by Great Britain, France, and Italy that unless the program of food deliveries promised by the Food Administration was kept pace with, Germany and her associates inevitably would win the war. While the facts could not be told at the time because of the possible effect on the morale of the nations fighting the central powers, it was nevertheless true that according to official word received from the entente allies, the outcome of the war depended upon the ability of the American railways to transport sufficient supplies of foodstuffs to the Atlantic seaboard for shipment abroad. This problem was met. It was no time for half-way measures. The safety of the world hung in the balance. Empty box cars were rushed from all portions of the east, south, to the southwestern grain States. Conflicting traffic of all kinds was held up. Every facility of the Railroad Administration and of the railroads under its jurisdiction was thrown into the balance. Officials and employees worked day and night. The result was magnificent. By March 15, the vessel capacity of the allies had been satisfied and there was available at North Atlantic ports an excess on wheels of 6,318 carloads of foodstuffs exclusive of grain on cars and in elevators.

Since that time there has never been any danger of the American railways failing to transport the necessary amount of food supplies for Europe. It perhaps is not too much to say that this was one of the turning points of the war.

In the period from July to November, 1918, 135,000 more cars of grain were handled than in the same months of 1917, thus demonstrating the enormous extra strain placed upon the railroads by this one item alone.

COAL.

Another critical situation which faced the railroads during the year just passed and was met had to do with the coal supply. Constant predictions have been made that the railroads would not function sufficiently to transport enough coal to supply the Nation's needs; these predictions have not been realized. New England's demands have been met, and 28,153,317 tons, the largest tonnage of coal ever known, has been moved to the Lake Erie ports and transported to the Northwest. In 1917 only 26,826,000 tons were moved over this route; in 1916 only 24,692,000 tons, and in 1915 only 21,507,000 tons. The contrast, you will observe, between 1915 and 1918 is a difference of over 7,000,000 tons transported to the Northwest.

Some indication of the freight traffic problems facing the railroads in the year just passed may be gained from the fact that there was a net increase of 741,666 cars, or approximately 37,083,300 tons of bituminous coal loaded during the 10 months ending October 31, 1918, as compared with the same ten months in 1917.

Senator GORE. Will you kindly state that again?

Director General McADOO. There was a net increase of 741,666 cars or approximately 37,083,300 tons of bituminous coal loaded during the 10 months ending October 31, 1918, as compared with the same ten months in 1917. This increase was achieved despite the fact that the severe weather conditions prevailing in January, 1918, resulted in a decreased production, due largely to car supply, of 65,594 carloads. The severe weather conditions continued throughout February and part of March, but nevertheless the railroads recovered themselves and in February, 1918, loaded an increase of 24,366 cars of bituminous coal over February, 1917.

MOVEMENT OF OTHER ESSENTIAL SUPPLIES.

At the same time special attention was being given to the movement of fruits, of cotton, of oil, of iron, and of the other principal products of the farms, the factories and the mines of America. Wherever necessary, special trains were utilized to transport these staple articles, and other methods were made available which resulted in fully meeting the situation.

I want to cite an instance that is very striking. In April conditions were chaotic in the oil industry and a great many of the refineries in the mid-continent fields in particular were shut down or only partially operating on account of shortage of equipment. The Railroad Administration arranged to consolidate oil shipments into train loads, symbol it, and move it through to destination or breaking point in solid train loads. So effective were these measures that Mr. W. E. MacEwen, chairman of the transportation committee of the Western Petroleum Refiners Association, voluntarily wrote on December 16, 1918, as follows:

Without going into the details of the matter, it suffices to say that within 30 days there was such an improvement that from that time on there was never a shortage of tank cars in the oil industry in the western field. There never was a demand made upon the western oil industry that they were not able to meet so far as transportation facilities were concerned. There never was a time that there was not at least a day and a half's loading of cars on hand. During the first 10 months of the year there was loaded from the Mid-Continent field 256,082 cars—

Senator GORE. How many?
Director General McADOO. 256,082.

compared with 200,603 cars for the same period of 1917, an increase of 55,479 cars, with practically no increase in the amount of equipment. From April 20 to November 30, inclusive, there was loaded from the Mid-Continent field a total of 3,585 solid trains of oil, containing 100,530 cars.

In the month of January the mileage per car per day on tank cars of western refiners was 26.16; in June, 56.27; and in September, 58.4; an increase of 100 per cent in the mileage performance. What was accomplished in the oil industry is one of the most concrete illustrations in the history of railroading of the economic gain by the cooperation between the shipping public and the railroads.

That is the end of Mr. MacEwen's letter. I may say that at about that time the conditions in the oil industry were so acute that great pressure was brought on the Railroad Administration to place immediately a large order for additional tank cars. It would have been impossible to get them quickly. Steel was demanded for the allies to such an extent, and for our own needs, that it was impossible to devote any considerable amount of steel to the construction of equipment. We took over the control of all tank cars of the country, and by consolidating their usefulness and operating them through one control we accomplished these results without the purchase of additional equipment.

In order to furnish the public a medium for communicating directly with the Railroad Administration concerning bad service, the Bureau for Suggestions and Complaints was established with very helpful results. Many constructive criticisms have been received and acted on. A total of 1,328 commendations and 714 complaints of individual courtesy or incompetence have been received during the 16 weeks since the formation of the bureau to December 24, 1918. The commendations have outnumbered the complaints almost two to one. This in itself is a tribute to the railroad employees of the Nation. Other letters have been received calling attention to "organic" defects in railroad service. A sharp decrease in the number of complaints has marked the return of peace and the consequent improvement of service.

PROPERTY PROTECTION.

Promptly after the inauguration of Federal control, attention was directed toward minimizing the enormous drain upon railroad revenues as a result of loss, as well as damage to freight, and the activities of thieves. When this work was begun, it was found that shipments of all kinds were being tampered with and stolen. Goods of all kinds were taken, even Army supplies, Red Cross shipments, and Belgian relief shipments. While there are not available authentic statistics as to the volume of thefts from carriers in recent years, for 1914 carriers reported to the Interstate Commerce Commission, a total of \$10,310,780.41 of thefts of merchandise from cars and terminals, including concealed and unlocated losses. The principal thefts have been of four classes:

- (1) Thefts of merchandise from cars and terminals.
- (2) Thefts of tools, machinery, appliances, brasses, etc.
- (3) Padded pay rolls.
- (4) Embezzlements.

The following statistics reflect the activities, as far as reported to the Railroad Administration, of the police agencies of the carriers under the direction of the Railroad Administration for April 1, 1918, to December 1, 1918:

Arrests for thefts.....	10,530
Convicted.....	8,069
Pending.....	2,075
Employees arrested.....	3,241
Value of goods recovered.....	\$667,578.54
Number of sentences imposed of one year or over.....	1,095
Fines imposed.....	\$150,509.63

ECONOMIES.

During the war period, essential war necessities had to be met regardless of cost. In peace time, naturally, one of the chief aims of railroad operation should be the saving of money. But even though expense could not be made the first consideration during the war, strict attention was given to this point, and orders were issued to effect savings wherever possible without interfering with the war program. Many of the economies brought about, such as rerouting, common use of terminals, etc., will be reflected but slightly in the operating income accounts of the carriers for the year 1918; that is, this past year. They will appear fully in the statements for the year 1919. Nevertheless, reports so far received from five of the seven regions show that on a group of selected principal items, savings totaling \$85,576,424.71 have been effected in the period from December 31, 1917, to December 31, 1918. Reports from the two remaining regions are not yet available.

The specific items which produced this saving include the unification of terminals and stations, the elimination of passenger service, reductions in organizations, and miscellaneous economics.

Equipment has been saved by the elimination of nonessential passenger trains; by the common use of freight cars; the common use of repair shops. I want to emphasize the common use of freight cars and the common use of repair shops; the emergency use of the Pennsylvania Hudson River tubes for the movement of anthracite coal from the Jersey terminals to Long Island, a step which could not have been taken under private control, merely an emergency use; the introduction of the coal-zone plan in cooperation with the Fuel Administration, which resulted in the saving of car-miles and permitted the production and transportation of several million tons more coal than would otherwise have been possible; the utilization of the Cape Cod Canal for the transportation of coal to New England; the operation of locomotives under steam from factories to the point of delivery, instead of hauling them as dead freight in the past; the introduction of the "sailing-day plan" for less than carload freight; the establishment of special organizations to handle refrigerator and tank cars, and the elimination of circuitous routes.

During the first 7 months of Federal control alone an aggregate of 21,000,000 passenger train-miles a year was done away with in the territory west of Chicago and the Mississippi River, while in the eastern territory 26,420,000 passenger train-miles were eliminated. Without this saving in motive power and equipment the moving of millions of troops could not have been achieved successfully.

UNIFICATION OF TERMINALS.

It having been shown that bad terminal conditions were proving a serious handicap to the necessary transportation business, terminal managers were appointed at the larger terminals with jurisdiction over the facilities of all lines. Successful efforts have been made to route freight so as to arrive at the specific terminal where it was to be disposed of. Interchange switching in terminals has been largely eliminated. The report on operations and the reports of the various regional directors will give in detail what has been accomplished in this respect, but it is worth noting at this point that at the Chicago terminals it has been the practice in the past to reconsign practically all coal after arrival. Under Federal control, as a result of co-operation with producers, 66 per cent of the coal arriving in Chicago during August was consigned directly to consumers from the mines, and cross hauling between terminal lines was greatly reduced through the same cooperation.

Marked convenience to the public resulted from the utilization of the Pennsylvania Station at New York by the Baltimore & Ohio and Lehigh Valley passenger trains. I am citing these two instances only to illustrate the effectiveness of the plan adopted.

SOLID TRAINS.

In order to meet the extraordinary war demand, and rush food and other supplies through to destination, arrangements were made early in the year for the forwarding of consolidated trains of export freight, principally war supplies, of food, grain, munitions, etc. Under this arrangement, a total of 5,090 special export trains have been handled from Western terminals, containing 124,198 cars of export freight, in the Eastern Region, the trains being filled out with other freight to make the full train-load as required. With the concurrence and cooperation of shippers, plans were made to put into effect in June, for assembling live stock, fresh meat, live and dressed poultry, and perishable freight, in solid trains, and forwarding them from Chicago, St. Louis, Cincinnati, Buffalo, and other Western points, on specific days of the week, via roads best fitted to handle them, resulting in a reduction in the feeding requirements for live stock and in the number of fast freight trains required to handle. In the Eastern Region, the decrease in Chicago alone, has been 11 trains per day, and the average cars per train of high class and perishable freight has been increased from 23 to 36. Grain, oil, and cotton are being consolidated and forwarded in train-load lots from Western points, resulting in a large saving in labor, in switching, eliminating cross hauls and facilitating movements. In the Eastern Region alone, a total of 981 special oil trains have been run since June 1, containing a total of 25,034 cars.

ELIMINATION OF CIRCUITOUS ROUTES.

One of the most wasteful practices in railroad operation in the past has been the use of circuitous routes in the handling of freight traffic, often for competitive reasons. General Order of the Director General No. 1 directed that everything possible be done to alter this

condition. In order to economize in rolling stock and motive power comprehensive studies were undertaken for the purpose of developing new routes which would not only be shorter but more economical and efficient. As a result, car, engine, and train miles have been saved, and the shipping public has been benefited because more cars have been available and more expeditious movement of traffic has been secured. Shippers were not responsible for the former extensive use of circuitous and uneconomical routes, as this routing was largely influenced by the agents of the interested railroads. Shippers have gladly responded to what are now the combined efforts of all railroad representatives under Federal control to influence the use of direct and economical routes and consequently the original routing as specified by shippers is now, generally speaking, in accordance with the established routing instructions, and extensive diversions are unnecessary. Therefore the increase in efficiency can not be measured by the car-miles saved through diversions of freight in transit. The savings in distance via many of the new routes is so great as to merit special mention. One from Los Angeles to Dallas and Fort Worth is over 500 miles shorter than the one formerly used; another from the oil fields of Casper, Wyo., to Montana and Washington State points is 880 miles shorter; fruit from southern California to Ogden is hauled 201 miles less; and a new route between Kansas City and Galveston has been developed which is 289 miles shorter than the 1,121 miles previously traversed via one of the lines. The ore traffic moving from Minneapolis and Michigan mines to Lake Superior and Lake Michigan ports was rerouted with gratifying results. During the ore shipping season, a total of 64,770 loaded and empty cars were rerouted with a saving of 3,577,464 car-miles. That is on the handling of the ore from the Missabe Iron range alone.

A few other typical cases of shortening of routes follow:

Between—	And—	Long route.	Miles.	Short route.	Miles.	Saving in miles.
Duluth.....	Chicago.....	C. B. & Q.-N. P.....	606	Soo Line.....	465	141
Do.....	Milwaukee.....	C. M. & St. P.-N. P.....	499	do.....	376	123
Chicago.....	Kansas City.....	C. G. W.....	596	A. T. & S. F.....	458	138
Do.....	do.....	C. & E. I.-M. P.....	573	C. & A.....	483	90
Do.....	Milwaukee.....	Soo Line.....	145	C. M. & St. P.....	85	60
Do.....	Mason City, Iowa.....	C. & A.-M. & St. L.....	490	C. G. W.....	373	117
Do.....	Little Rock.....	C. R. I. & P.....	1,277	C. & A.-M. P.....	633	644
Do.....	St. Louis.....	C. R. I. & P. & St. L.....	361	C. & A.....	284	77
Do.....	Minneapolis.....	C. R. I. & P.....	524	C. & N. W.....	408	116
Do.....	St. Paul.....	I. C.-M. & St. L.....	503	C. M. & St. P.....	412	91
Minneapolis.....	Des Moines.....	C. B. & Q.....	614	C. R. I. & P.....	270	344
Do.....	Kansas City.....	C. M. & St. P.....	666	do.....	494	172
Do.....	Omaha.....	C. B. & Q.....	736	C. St. P., M. & O.....	377	359
Do.....	Peoria, Ill.....	Soo-C. & A.....	609	C. R. I. & P.....	458	151
Portland, Oreg.....	St. Louis.....	do.....	742	C. B. & Q.....	617	125
Ogden, Utah.....	S. P. lines.....	1,339	U. P. lines.....	857	482	
Do.....	St. Paul.....	U. P.-C. G. W.....	2,127	S. P. & S.-G. N.....	1,815	312
Everett, Wash.....	Spokane.....	N. P.....	444	G. N.....	306	138
Billings, Mont.....	Butte, Mont.....	G. N.....	405	N. P.....	236	169
Do.....	Spokane.....	do.....	762	do.....	613	149
Butte, Mont.....	Great Falls.....	C. M. & St. P.....	387	G. N.....	171	216
Chicago.....	Clinton, Iowa.....	C. R. I. & P.....	259	C. & N. W.....	138	121
Do.....	Sioux City, Iowa.....	C. B. & Q.....	615	I. C.....	509	106

In a few instances it has been necessary to increase the length of hauls temporarily to avoid accumulations.

By rerouting, a total of 16,863,633 car miles has been saved, in the Eastern and Northwestern regions alone. At the writing of this report, I had no report from the other regions.

BETTER OPERATION.

The operating results may be summarized briefly: The railroads, during the first 10 months of Federal control, produced 1.9 per cent more ton miles with a decrease of 2.1 per cent in train miles and a decrease of 5.8 per cent in loaded car miles. The average train load increased from 655 tons to 682 tons, a gain of 4.1 per cent; and the average carload increased from 26.8 tons to 29 tons; a gain of 8.2 per cent. I may say that that does not reflect the situation as favorably as the results justify, or as the Railroad Administration is entitled to, because, in order to get the food and supplies promptly to the seashore for transshipment over the ocean, we hauled empty cars regardless of any other traffic into the regions where the originating traffic was, and carried the supplies back to the seaboard with all possible rapidity, in order to meet the demands in Europe of the armies and the civilian populations there. That refers to the instance described in the previous part of my report. Ordinarily, as you know, the railroads make it a point never to haul empty loads if they can avoid it, which, of course, is sound economic practice. The exigencies, however, were so great we had to haul these empty cars a very long distance in order to get them quickly where the vital traffic was, and we get no credit for that in the statistics I have just given. That would be more favorable if we took those matters into account.

The increase in traffic in 1918 was accomplished by the use of approximately 3.4 per cent more freight cars and approximately 1.4 per cent more freight locomotives than in 1917. Compared with 1916 the 1918 increase in freight cars was 6.9 per cent and the increase in freight locomotives was 2.4 per cent.

It should be explained that the total ton miles handled are much less than they would have been in the past for a corresponding volume of traffic by reason of cutting out circuitous hauls. The general statement may be made that the actual transportation production is greater than is indicated by ton-mile statistics. In whatever degree the actual performance of moving tons from one place to another place as required is accomplished by moving the tonnage over shorter routes, to that degree the ton-mile statistics understate the real performance when they are compared with a period when the shorter routes were not used. That is somewhat technical, but all railroad men, I hope, will understand it.

THE PERMIT SYSTEM.

Probably it would not have been possible to meet the enormous demands made upon the transportation system during the past year without the utilization of the permit system, which prevents the loading of traffic in the absence of assurance that it can be disposed of at destination. This is a reform which under Government control would succeed in peace times as well as in war times and is one of the most important means of preventing transportation stringency or congestion. It means controlling the traffic at the source, in the public interest, instead of letting the traffic choke the public interest at destination.

Perhaps it would be wise for me to explain a bit more in detail what that means. Prior to the institution of the permit system a

shipper could deliver his stuff to the railroad, get the bill of lading for it, and they would take it regardless of the ability of the consignee at destination to receive it and unload it promptly and release the equipment for other service. Of course, shippers, as a rule, are anxious to get their shipments upon trains, get their bills of lading, to make drafts against them, and to relieve their own factories, naturally, or their own storerooms, of these supplies. Now, one of the greatest difficulties in the railroad situation is in the terminals all over the country, especially in the great centers, and so long as shippers were allowed to make those shipments regardless of the ability of the consignees to promptly remove them from terminals and from cars, you can see that there was no control over the situation. As a war necessity we had to put into effect what we call the "permit system," and we would allow a shipment to be made only when the consignee was prepared to receive it promptly and remove it from the cars and release the equipment so it could be put back into service.

WAR CHANGES.

Some of the means used to bring about the desired result were strictly war measures and probably could not or should not be utilized in time of peace. For instance, this is true with regard to the elimination of many passenger trains, although passenger trains run merely for competitive reasons are often wasteful and do not give the needed service to the public.

The Exports Control Committee, which has played a vitally important part in the proper handling of supplies for overseas shipment, probably could not be operated under peace conditions, although under unified control an important adjustment of traffic to port capacity will be practicable, even under peace conditions.

REFORMS WHICH SHOULD BE CONTINUED UNDER PEACE CONDITIONS.

Many of the changes in railroad operation inaugurated during the period of the last year should prove of permanent value and should continue, if possible, whatever form of control is decided upon for the railroads. Such reforms include:

1. The maintenance of the permanent system, which I have just described, so as to control the traffic at its source.
2. The maintenance of heavy loads for cars.
3. The pooling of repair shops.
4. The elimination of circuitous routes—freight routes; circuitous, round-about routes.
5. The unification of terminals.
6. The maintenance of the "sailing-day plan."
7. The consolidation of ticket offices.
8. The utilization of universal mileage tickets.
9. The standardization of equipment.
10. The maintenance of uniform freight classification introduced by the United States Railroad Administration.
11. The maintenance of common time tables between important points.

12. The maintenance of high demurrage rates and uniform rules.
13. The establishment of through waybilling freight from points of origin to destination.
14. Rendering unnecessary the rebilling by connecting or intermediate routes.
15. The elimination of the old practice of paying in mileage or per diem rental for the use of freight or passenger cars of one carrier by another.
16. The simplification of the old practice of apportioning interline passenger revenue.
17. The utilization of water routes for the relief of crowded rail lines.

WASTEFUL COMPETITION.

Some of these reforms can be continued should the roads be returned to private operation; others can not. Competition and self-interest dictate that when the roads are under private control each carrier gets as much business as possible and keeps it regardless of the fact that the aggregate result may be wasteful and uneconomical. For instance, where two or more competing lines operate between two important cities, the convenience of the public can best be served if alternating trains be operated at short intervals over the different roads. Competition, however, always results in each of the roads "bunching" their trains at the times when the demand for transportation is heaviest. Competing lines can hardly be expected to route freight over the lines of competitors even though these competing lines may have the shorter routes and be able to handle this particular traffic more economically. Lines with advantageous terminal facilities can not be expected under private control to place such facilities at the disposition of competitors operating under less favorable circumstances. One company will not forego loading and hauling traffic even though this seriously embarrasses the general situation because its connections can not conveniently receive and dispose of the traffic. Private carriers may not enforce rules which, although designed to bring about efficiency and economy, might drive business away from their lines. All the waste resulting from these practices and running into huge costs is paid for by the public in the form of increased rates.

PUBLIC SERVICE FREIGHT BUREAUS.

Under private control of railroads, and for competitive reasons, practically all railroads maintain so-called off-lines agencies, the original function of which was solicitation of traffic. These off-line agencies were abandoned by the Railroad Administration for the reason that the competitive causes which gave rise to their establishment no longer existed. It was found, however, that in some measure these agencies had performed real service to the public and therefore the establishment of public service freight bureaus has been begun with a force trained to handle for shippers matters which were formerly handled by the off-line agencies.

LABOR.

The participation of America in the European War with the consequent shortage of man power available in this country and the increase in the cost of living has made the railroad labor problem a difficult one during the past year. However, the great bulk of railroad labor has demonstrated a fine spirit of patriotism and has cooperated heartily with the Government. The labor troubles which were facing the railroads when they went under Government control were practically all eliminated and with a few exceptions there has been quiet in the railroad labor world during the last 12 months.

In order to place railroad labor upon a living wage and provide fair working conditions, an investigation into labor conditions on the railroads was begun immediately after the carriers were taken by the Government, with the result that many reforms in working conditions, decreases in the hours of labor and increases in the rates of pay have resulted. These investigations have been continued since the machinery was set up for the thorough investigation and hearing of all grievances and representations about wages and working conditions. The machinery generally has recognized the so-called "bi-partisan" principle of equal representation of employer and employee on boards. Decisions, however, have always been made by the Director General since he is charged with that responsibility as the chief representative of the Government. A Director of Labor was appointed in the person of Mr. W. S. Carter, president of the Brotherhood of Railway Engineers and Firemen who was placed on an equal footing with the heads of other divisions, over which directors presided.

The critical labor conditions are strikingly brought out in the report of the Railroad Wage Commission, composed of Hon. Franklin K. Lane, Secretary of the Interior, Charles C. McChord, of the Interstate Commerce Commission, William R. Wilcox, of New York, and J. Harry Covington, of Washington, appointed January 18, 1918, to "make a general investigation of the compensation of persons in railroad service, the relation of railroad wages to wages in other industries, the conditions respecting wages in different parts of the country, the special emergency respecting wages which exists at this time owing to war conditions and high cost of living, as well as the relation between different classes of railroad labor."

This commission heard representatives of every class of employees, organized and unorganized, railroad officials, and experts on the subject, and examined hundreds of written statements and personal letters from employees. The requests presented to the commission for wage increases, if granted, would have involved an outlay of something over one billion dollars per year in excess of wages paid in 1917. In its report, the commission, after reciting the various demands for wages made by railroad labor in 1916 and 1917 and reviewing increases given by the railroads under private control, said:

But these advances were not in any way uniform, either as to employments, or as to amounts, or as to roads, so that one class of labor benefited much more than another on the same road, and as between roads there was the greatest divergence. The situation has been dealt with as pressure made necessary, and naturally those who, by organization or through force of competition, could exert the most pressure fared the best. Things came to a head just before the Government took over the railroads.

Another three months of private management and we would have seen much more extensive concessions in wages, or there would have followed an unfortunate series of labor disturbances. The Government, therefore, has now to meet what would have come about in the natural course.

Indeed, the patience of the men was only allayed, after Government intervention, by the assurance that the matter of wages would be promptly taken up and that the awarded increases would be retroactive as of January 1 of this year.

The commission further said:

It has been a somewhat popular impression that railroad employees were among the most highly paid workers, but figures gathered from the railroads dispose of this belief. Fifty-one per cent of all employees during December, 1917—that is, more than a million employees—received \$75 per month or less, and 80 per cent received \$100 per month or less. Even among the locomotive engineers, commonly spoken of as highly paid, a preponderating number received less than \$170 per month, and this compensation they have obtained by the most compact and complete organization, handled with a full appreciation of all strategic values.

Between the grades receiving from \$150 to \$250 per month there is included less than 3 per cent of all the (excluding officials) and these aggregate less than 60,000 men out of a grand total of 2,000,000.

These, it is to be noted, are not prewar figures—

I am still reading from the report—

they represent figures after a year of war, and two years of rising prices. And each dollar now (the report was made Apr. 30, 1918) represents in its power to purchase a place in which to live, food to eat, and clothes to wear, but 71 cents as against the 100 cents of January 1, 1916.

WAGES.

Wage increases granted during the year are estimated to aggregate between \$600,000,000 and \$700,000,000 per annum and in a large part were retroactive from January 1, 1918. These wages were fixed not upon the theory that the railroads, a permanent industry, should compete in prices paid labor with the transient war industries, many of which paid very high wages in order to attract labor. Rather the effort was made to find a just and equitable basis which would outlive the war and which would give a living wage and decent working conditions to every railroad employee. Efforts have been made to eliminate inequalities, and while this work has not been finished, it has been chiefly done.

CONDITIONS OF EMPLOYMENT.

On February 21 General Order No. 8 was issued, containing, among other things, the following:

No discriminations will be made in the employment, retention, or conditions of employment of employees because of membership or nonmembership in labor organizations.

This has had the effect of many railroad employees joining labor unions who previously were not affiliated with them. At the same time equal consideration has been shown employees who were not members of unions, and individual employees have been heard on an equality with representatives of the unions. The principle of the eight-hour day was recognized early and strengthened whenever possible.

Special efforts have been made to better the working conditions of the women in railroad service, and a special women's section was established in the labor division to investigate conditions surrounding women so employed and apply remedies where unfavorable con-

ditions were found to exist. In General Order No. 27 it was ordered that—

When women are employed the working conditions must be healthful and fitted to their needs. The laws enacted for the government of their employment must be observed, and their pay, when they do the same class of work as men, shall be the same as that of men.

In the same order it was provided that where negroes performed the same service as whites they should receive the same pay as whites.

LABOR SHORTAGE.

The necessity for manning the American military railways in France with trained American railway men, and the induction into other branches of the Army and Navy through voluntary enlistments or through the draft, of many railroad employees, added to the difficulties throughout the year, since at no time in the history of the American railroads has there been a greater need for trained and skilled railway help than during the war period. This difficulty was greatly increased by the influenza epidemic during the last half of the year, which very seriously interfered with the operation of the railroads for several months.

In this connection I may say that a very serious handicap was imposed upon the Government operations during the year, not only because of labor shortage, but on account of the necessity of employing green and unskilled men, which very seriously hampered the operations in many directions.

EXPENDITURES FOR CAPITAL ACCOUNT.

On February 2, 1918, all lines under Federal control were directed to prepare and send in budgets of improvements immediately required to increase capacity and efficiency, and to promote safety in operations; and in the letter of instructions the following policy was prescribed:

In determining what additions and betterments, including equipment, and what road extensions should be treated as necessary, and what work already entered upon should be suspended, please be guided by the following general principles:

(a) From the financial standpoint it is highly important to avoid the necessity for raising any new capital which is not absolutely necessary for the protection and development of the required transportation facilities to meet the present and prospective needs of the country's business under war conditions. From the standpoint of the available supply of labor and material, it is likewise highly important that this supply shall not be absorbed except for the necessary purposes mentioned in the preceding sentence.

You may see, gentlemen, that that policy had a direct bearing upon the general financing of the Government's needs in the war. It was very necessary to adhere to it strictly.

(b) Please also bear in mind that it may frequently happen that projects which might be regarded as highly meritorious and necessary when viewed from the separate standpoint of a particular company may not be equally meritorious or necessary under existing conditions, when the Government has possession and control of the railroads generally, and therefore when the facilities heretofore subject to the exclusive control of the separate companies are now available for common use whenever such common use will promote the movement of traffic.

The budgets submitted in response to these instructions called for expenditures chargeable to capital account—that is, exclusive of

large sums chargeable to maintenance—amounting in the aggregate to \$1,329,000,000, which upon careful revision was reduced to \$975,000,000. I wish to say that these budgets were submitted by the corporations themselves which were at that time still in control of the properties and were operating them under the direction of the Director General. So that these are the budgets which were presented by the railroad corporations and represented what they thought it was necessary or desirable to do to their respective properties. This amount, \$975,000,000, which was first authorized by the Division of Capital Expenditures, was subsequently increased from time to time by new and unforeseen requirements, and particularly by large orders for locomotives and freight cars, until the improvements definitely authorized to December 1, 1918, amounted to \$1,254,396,158. Of this amount \$551,925,525 is for additions and betterments; \$656,048,745 for equipment, and \$46,421,888 for construction of extensions, branches, and other lines.

The expenditures thus authorized were for improvements classified as follows:

Class of work.	Improvements authorized to Dec. 1, 1918.	Capital expenditures made to Nov. 1, 1918.
ADDITIONS AND BETTERMENTS.		
1. Widening cuts and fills, filling trestles, etc.	\$7,639,469	\$3,694,433
2. Ballasting	9,852,098	4,017,570
3. Rails and other track material	32,755,702	13,024,510
4. Bridges, trestles, and culverts	40,637,677	20,970,333
5. Tunnel and subway improvements	4,041,957	879,371
6. Track elevations or depressions	15,278,146	3,126,307
7. Elimination of grade crossings	12,175,753	3,546,618
8. Grade crossings and crossing signals	3,570,222	993,300
9. Additional main tracks	62,532,363	25,378,978
10. Additional yard tracks, sidings, and industry tracks	125,806,775	47,534,458
11. Changes of grade or alignment	9,089,621	2,887,221
12. Signals and interlocking plants	16,796,192	5,339,360
13. Telegraph and telephone lines	5,789,737	2,395,406
14. Roadway machinery and tools	1,979,206	1,167,706
15. Section houses and other roadway buildings	3,058,495	2,119,588
16. Fences and snowsheds	2,198,411	835,903
17. Freight and passenger stations, office buildings	47,963,570	15,600,785
18. Hotels and restaurants	754,674	297,803
19. Fuel stations and appurtenances	8,236,725	3,197,554
20. Water stations and appurtenances	11,879,643	5,046,824
21. Shop buildings, engine houses, and appurtenances	57,229,566	22,627,659
22. Shop machinery and tools	21,585,247	6,383,153
23. Electric power plants, substations, etc.	22,454,729	5,742,126
24. Wharves and docks	5,163,966	874,390
25. Coal and ore wharves	5,532,284	3,621,739
26. Grain elevators and storage warehouses	2,747,663	2,111,911
27. Real estate	4,298,182	1,205,014
28. Assessments for public improvements	3,063,271	1,385,321
34. All other improvements	7,814,181	4,473,332
Total	551,925,525	210,568,673
EQUIPMENT.		
35. Locomotives, steam	118,051,766	57,256,639
Locomotives, steam (ordered by Railroad Administration)	76,873,353	28,621,655
36. Locomotives, other	2,360,538	888,772
37. Freight-train cars	97,186,852	70,221,661
Freight-train cars (ordered by Railroad Administration)	289,460,000	59,193,472
38. Passenger-train cars	15,866,432	11,028,462
39. Work equipment	7,677,891	1,748,404
40. Motor car and trailers	587,558	58,164
41. Floating equipment	5,415,350	650,411
42. Miscellaneous equipment	629,621	276,169
43. Improvements to existing equipment	41,939,382	18,499,064
Total	656,048,745	248,442,873
44. Construction of extensions, branches, and other lines	46,421,888	18,199,466
Total, all work	1,254,396,158	477,211,012

In planning improvements chargeable to capital account other than for war purposes, the rule adopted was that the first consideration should be safety in operations, and, secondly, increased capacity where that was needed; and that any improvement not required for these purposes should be deferred until after the war unless exceptional circumstances should make it necessary earlier. Improvements designed to effect permanent economies have been left for the favoring times and conditions of peace, unless the economy was so great that substantially the entire cost could probably be saved during Federal control.

The effect of the foregoing policy is shown by the above statement, from which it appears that much the largest item was for additional yard tracks, sidings, etc. The second largest item was for shop buildings, engine houses, and appurtenances; and the third for additional main tracks, and by the large orders for equipment almost wholly for locomotives and freight cars.

In addition to the locomotives and freight cars under order by the railroad companies at the time the Government assumed control, additional orders were placed for 1,430 locomotives for 1918 delivery, at an estimated cost of \$78,193,200, of which 542 have been delivered by the builders; and also an order for 100,000 freight cars for 1918 delivery at an estimated cost of \$289,460,000, of which there has been completed and delivered to date 14,650 cars. An additional order for 600 locomotives for 1919 delivery has also been placed, involving an expenditure of approximately \$37,842,268. At the time these orders were placed it was supposed that the war might last much longer than the year 1918. In that connection, it may be interesting to note the dates. The big German drive on Paris started March 21, 1918, and on April 30 the Railroad Administration ordered 1,400 additional locomotives; on May 1 the Railroad Administration ordered 100,000 freight cars, and shortly after that time—I haven't the date of the beginning of the second German drive, but shortly after that the second German drive began, when they crossed the Marne, and which was stopped afterwards by our heroic marines at Chateau-Thiery July 15. Practically all of this equipment has been assigned to those railroads whose need for additional power and equipment appeared to be the greatest.

COST OF COAL AND OTHER SUPPLIES.

The cost of coal and practically all other supplies used by the railroads increased enormously during the year just passed, as compared with the cost during the year 1917. The increased cost of fuel for first 10 months of the present year was \$140,000,000 over the cost for the same 10 months in 1917, and during the same period the cost of crossties and lumber increased approximately \$65,000,000. The added cost of coal to the railroads increased in spite of the fact that economy in the use of coal was exercised to such an extent that, for instance, on the Chicago & Northwestern Railroad during the month of October the number of pounds of coal per passenger locomotive-mile was 110.9 this year, as compared with 124.3 last year, and the number of pounds of coal per passenger train car-mile was 19.2 this year as compared with 21.3 last year, and yet the cost of locomotive fuel per locomotive-mile was 34.9 cents in October, 1918, as compared

with 27.9 cents in October, 1917. That is a very striking illustration of the increased cost, in spite of the economy we were able to practice by the better utilization of motive power under Federal control. On the Union Pacific, during the same month, the number of pounds of coal per passenger locomotive-mile this year was 115.6, as compared with 131.8 last year. On the same line, during the same month, the number of pounds of coal per passenger train car-mile was 13.6 this year as compared with 18.2 last year, and yet the cost of fuel per locomotive-mile was 33.2 cents in October, 1918, as compared with 32.6 cents in October, 1917. On the Chesapeake & Ohio Railroad the number of pounds of coal per passenger locomotive-mile during the same month was 136.1 this year, as compared with 142.6 last year. The number of pounds of coal per passenger train-mile on the same road during the same month was 24.4 this year, as compared with 24.9 last year, and yet the cost of fuel per locomotive-mile was 35.3 cents in October, 1918, as compared with 29.8 cents in October, 1917. That is characteristic of the conditions on the leading lines throughout the country. This is a striking illustration of the fact that, although you economize greatly in the use of the coal, the cost was actually much greater.

THE INCREASE IN RATES.

The increase in wages and the greatly enhanced cost of coal, iron, and steel, and other supplies necessary for the railroads, made necessary the increase of both passenger and freight rates during the period of Federal control. Flat percentage increases were necessary to obtain the required revenue, but continuing and successful efforts have been made since to eliminate inequalities naturally incident to the adoption of such a plan—that is, the percentage plan. These new rates did not go into effect until practically six months of Federal control had passed, and therefore only approximately six months' benefits have been gained from them during the past year, whereas increased cost of labor, coal, and other supplies has operated during the entire year. Economies in operation and in organization have resulted in enormous savings but have not fully met the difference between the cost of operating the railroads and the income, for the reason stated. The benefits of these savings will not be fully realized until the operations for the year 1919 are completed. Very little benefit has been received in the year 1918.

INCREASED COST NECESSARY.

The increases in cost of operation which have occurred in the period of Federal control undoubtedly would have been equally operative had the roads remained under private control. If the private owners had operated the railroads during the past year, they either would have had to increase the rates as the Government did or they would have had to face an enormous deficit.

FINANCIAL.

The financial aspects are as follows:

From the reports of operations for 10 months ending October 31, 1918, and with November and December estimated, the net operating

income of the roads under Federal control will be less by approximately¹ \$136,000,000 than the standard return or annual rental under the law the Government pays for the use of the railroads. This deficiency is remarkably small in the circumstances, because the increases in freight and passenger rates were in effect for only a little more than 6 months of 1918, as already stated, whereas increased wages and increased cost of fuel and all other railroad supplies were in effect for the entire 12 months. If the increases in freight and passenger rates had gone into effect January 1, 1918, or at the same time that the increased wages and cost of fuel and supplies went into effect, it is estimated that there would have been a substantial surplus for the year of at least \$100,000,000 to the Government.

For the year 1919, with all wage increases granted in 1918 operating for the entire 12 months and upon the assumption that the traffic for 1919 is substantially the same as in 1918 and that the cost of fuel and supplies remains the same, it is estimated that there should be a surplus to the Government over and above the standard return of approximately \$100,000,000. That is for this year, 1919; that is the estimate. It is to be expected, however, during the year 1919 the cost of material and supplies may be reduced, and it is also reasonable to expect that with improved operation under normal conditions, relieved of the intense pressure and excessive cost incident to the war necessity, and with a general improvement in operations and use of facilities and equipment that may be reasonably expected in peace time, many more economies can be effected. Since the object of the Government should be at all times to operate the railroads not for profit but at cost, and to render at the same time the best possible service, I confidently believe that it will be possible during the year 1919, or certainly at the end of the year 1919, to effect a considerable reduction in rates unless the traffic for 1919 should be much less than it was in the year 1918.

INLAND WATERWAYS.

Hundreds of millions of dollars have been expended by the Nation, the States, and citizens for the purpose of developing our inland waterways and for the construction of canals. Thousands of miles of rivers, canals, lakes, and bays are ready to assist in moving our products. These waterways, with the exception of the Great Lakes, are not being extensively used.

With the assumption of my present task, I appointed a committee to make a prompt investigation and to suggest a definite plan for the additional use of internal waterways for the economical and expeditious movement of the traffic of the country, so as to relieve or supplement the railways under the conditions caused by the war. This was the beginning of a program which has been constantly pursued, and while the greater urgency for raw materials in war work interfered with the construction of steamers and barges, 160 steel, wood, and concrete vessels are now building and 50 steel and wooden craft have been purchased. The total appropriation for old and new floating equipment exceeds \$11,750,000.

¹ This figure subsequently was changed by Director General to \$196,000,000 because of additional reports received by the Railroad Administration.

The increased responsibilities of this country in the family of nations will demand greater commercial activity on our part. Transportation is a major problem, for on account of the extensive area of our country we have a longer average haul to seaboard than other industrial commonwealths. It has seemed to me evident that by developing transportation on the waterways and coordinating and articulating them with a unified railway system, we shall bring about a correct solution of the rail-water controversy which has been in progress for 50 years. This is possible with the railways under Federal control. I doubt if any of our rivers or canals will become active factors of transportation if the railroads are turned back to private control. The old methods of railway competition with the waterways doubtless will be revived and the waterway experiment may not be able to survive that competition.

In furtherance of the plans for waterways transportation a Division of Inland Waterways, with two subdivisions, was created, the Mississippi-Warrior and the New York and New Jersey Canal Sections.

Mississippi River.—Service on the Mississippi was inaugurated September 28 with 34 vessels. Of these, 23 are leased and 11 were purchased. The service is developing satisfactorily, and as tariffs for joint rates with the railroads have just been promulgated, the valley will be afforded traffic privileges not possible in the days of railroad competition. Six steel steamers or towboats and 40 (2,000-ton) steel barges are under construction for this service. The capacity of the Federal fleet between New Orleans and St. Louis will approximate 1,000,000 tons annually.

Warrior River.—Nine steamers and 24 barges were purchased for Warrior River service. Six steamers and 20 barges are about to be constructed. This fleet will be capable of carrying 600,000 tons southbound and about 150,000 tons northbound. The Federal improvements on the Warrior are complete as to 6 feet of water and will shortly be completed as to 8 feet navigable draft.

New York Barge Canal.—The congestion existing on the railroads in the early part of 1918, and the war emergency, made it essential to prepare so far as possible for such use of this important waterway as might be necessary to assist the railroads, and although it was announced officially that the canal was completed, there was practically no private building of equipment for use on the canal, and many of the old boats were being diverted to other uses. During the season the Railroad Administration leased and operated upward of 200 barges on the New York State Barge Canal, and contracted for the construction of 51 steel and 21 concrete barges. Delivery of the new barges began in December. Construction was delayed on account of the war requirements for steel. It turned out that the canal had only 7 feet navigable depth at the opening, and it was not until mid-summer that all the boats could be loaded to full capacity for operation, and as the terminals and rail connections were unfinished, an economical operation was not possible. In fact, $8\frac{1}{2}$ feet of navigable depth was the maximum in the canal during the season. The rail congestion of last winter was relieved before the canal season opened. The suspension of imports, the decrease in road and industrial building, and the deficiency in the grain crops of 1917, affected very seriously tonnages that under normal conditions are available for this waterway. In compliance with very urgent requests of the

people of the State of New York, a local packet freight service was installed between Troy and Buffalo. As suitable boats were not obtainable and as the terminals were in some cases unfinished and in others inaccessible, it was apparent that the operation would not be profitable, and results justified this view; that is, of the packet service. It was not a very large affair at all, but it seemed wise to undertake it in order to develop the possibilities of the business. I think it can be developed under proper conditions.

It is to be noted that although the enlarged canal was in operation all season, no activity was displayed on the part of individuals or corporations to build vessels. The Railroad Administration has repeatedly announced that it does not assume to control, nor does it in any way discourage, the operation of privately operated barges; nor does it fix the carrying rate for independent vessels. When the canal and its facilities are completed, and when modern vessels are available, it will be possible to ascertain the cost of transporting traffic on this waterway. The results obtained during this formative stage, with the unavoidably antiquated equipment, are not a criterion of what can be accomplished with a completed canal and modern equipment. The adjustment of shippers and their facilities to the use of the canal is also a matter of time, which could not be progressed rapidly with the conditions existing during the present season.

Delaware & Raritan Canal.—The Delaware & Raritan Canal, connecting the Delaware River with New York Harbor, from 1914 up to the present year suffered a steady decrease in business. In 1917, 273,000 tons of freight, in round numbers, were moved. The limited draft of water and small lock structures prevented profitable transportation operation on this waterway. It became evident last spring that there would be a marked decrease in the use of the canal for transportation of coal, due to the fact that coal was to be shipped via other routes, but there was an unusual demand for transportation of miscellaneous freight between New York and Philadelphia by this route. The canal has for many years been under lease to the Pennsylvania Railroad Co. and came under Federal control as part of its transportation system. In July the New York-New Jersey Canal Section took charge of the floating power equipment of the Railroad Administration on the canal and December 1 the operation and maintenance of the canal was transferred to that section. The Railroad Administration also operated a fleet of packet freight ships during a part of the season. There are a number of private transportation agencies operating on this canal. In spite of the loss of coal tonnage, the total freight movement on the canal will slightly exceed that of 1917.

Chesapeake & Ohio Canal.—The Chesapeake & Ohio Canal, connecting Chesapeake Bay with Pennsylvania and West Virginia coal fields, has been operated at a loss for several years. At the beginning of the season of 1918 it appeared that unless action was taken to support navigation on this canal the increasing costs would cause it to cease, while the pressure of traffic at that time upon the railroads bringing coal to Washington and vicinity was so great as to make it very undesirable that they have the additional burden of transporting the coal previously carried by the canal. The Railroad Administration, therefore, for a time assumed the cost of canal tolls on coal, and later on made an arrangement with the only company operating

boats on the canal, which insured the maintenance of the service, the Railroad Administration paying the actual cost of the service over and above the freight charges which were paid by the shipper at the same rate as for rail shipments. The Railroad Administration also furnished 10 new barges which were leased to the operating company. It seemed desirable to keep that facility going in view of the great pressure on the railroads at that time.

Ohio River.—In view of the fact that the projected locks and dams on the Ohio River between Pittsburgh and Cairo are not completed (the movement has not been finished even between Pittsburgh and Cincinnati) it does not seem a proper time to consider any new equipment for this route.

Lake Keuka, N. Y.—The service formerly operated on this lake by the Lake Keuka Navigation Co. had been discontinued, and in order to move the grape crop of 1918 the Division of Inland Waterways operated equipment of the Lake Keuka Navigation Co. during the grape season.

INTRACOASTAL WATERWAYS.

The intracoastal waterway from Philadelphia to Beaufort, N. C., will be susceptible of greater commercial development. The projected improvement between Norfolk and Beaufort will not be completed for some time, and it will require at least two years to modernize the Chesapeake & Delaware Canal. This improvement—that is, the Chesapeake & Delaware Canal—ought to be authorized promptly, and I hope that the Congress may grant the necessary appropriation and power to deal with the matter.

That is a very important connecting waterway there, which could render very great service to the commerce center at Baltimore if it could be finished.

The fleet cooperating along this route was commandeered to a considerable extent during the war, but the vessels are being slowly returned to the owners. The fleet seems to be sufficient for normal conditions. The capacity can be considerably increased by the introduction of modern terminal methods. Ultimately packet freight service on this route may be practicable.

COASTWISE SHIPS.

The fleets of vessels of railroad ownership were augmented on April 13, 1918, by the taking over of the vessels of the Clyde, Mallory, and Southern Steamship Cos. and the Merchants & Miners Transportation Co., comprising 64 passenger and cargo-carrying vessels, operating in coastwise service between various ports—Boston, Mass., to Galveston, inclusive. The operation of the vessels was at times seriously interfered with by German submarines. In supporting the war policy of the Nation, the steamships under Federal control were used in war work to the maximum extent. The properties of the Clyde, Mallory, and Southern Steamship Cos. and the Merchant & Miners Transportation Co. were relinquished from Federal control on December 6, as they are no longer necessary to the war purpose.

CAPE COD CANAL.

The Cape Cod Canal was taken under Federal control July 25, 1918, and it is earnestly hoped that it will be operated in the future by the Government. Formation of shoals had reduced its navigable depth to 17 feet at mean low water when the Government took control, but the Railroad Administration immediately provided \$250,000 for dredging, piling, bank-protection work, etc., and on October 23 the canal was opened for vessels drawing 20 feet 6 inches of water, and the dredging necessary to restore the original depth of 25 feet at mean low water is expected to be completed by February 15, 1919. Improvements have been made, including the installation of bank protection by granite riprapping. In spite of the fact that the work on the canal has not been entirely completed, there has been an increase of 56.4 per cent in the number of vessels handled and 114 per cent in the cargo tonnage transported through the canal in 1918, as compared to 1917.

The use of the canal effects a saving of about 65.70 miles in the journey and a great many hours in time; it increases very largely the vessel unit efficiency of these boats which use the canal.

STANDARDIZATION OF LOCOMOTIVES AND CARS.

Before Government control, practically every important railroad had its own specifications for cars and engines. Practically all were different in details. Although the facts are not obtainable, it has been said that there were 2,023 different styles of freight cars and almost as many different styles of locomotives included in the equipment of American railroads prior to the war. Complete standardization, of course, is impossible, but as rapidly as existing rolling stock and engines wear out, it ought to be practicable to replace them by standard types. During the period of Federal control progress has been made. Some 12 standard types for freight cars have been agreed upon, and it has also been decided that hereafter only six different types of locomotives of two different weights shall be purchased. The parts of these various locomotives and freight cars, respectively, are interchangeable. The importance of this is forcibly illustrated by an instance where a leased locomotive was held out of service until over \$4,800 had accumulated, awaiting a part which would cost not to exceed \$30. Where particular conditions exist, however, and where special types of locomotives are necessary, permission has been given to depart from the standardized type of locomotive.

I may say that a very interesting development has resulted from the standardization of these types, as shown by the actual production at the American Locomotive Works. I haven't those figures, but I will supply them a little later, but they show an enormous increase in the output of the standardized locomotives with precisely the same machines and number of employees, as against the specialized type which had been theretofore constructed.

CIVILIAN INCONVENIENCES.

While such a great work was being performed, inconveniences to civilian travelers and some interferences with the transportation of ordinary freight in the United States were unavoidable. The war

necessity came first; the civilian needs of America second. With a limited supply of passenger and freight equipment available, and with a large proportion of this equipment needed for the movement of troops and war supplies, there were not sufficient cars and locomotives remaining to fully meet civilian needs; nor was there time nor materials nor labor to build them. This was explained to the country early in the year, and during the period of the war the people generally, when they realized the situation, patriotically accepted it and made sacrifices accordingly.

Whatever inconveniences have resulted are due entirely to war conditions and are in no way related to the fact that the railroads were under Government control. Such inconveniences undoubtedly would have been greater under private control, for the supply of equipment was augmented by the ability of the Government to shorten routes, to combine facilities, to pool equipment and motive power, and to introduce economies which the roads under private control could not and would not have introduced.

I desire to make this point as clear as possible, for it is necessary for the American people to understand the facts of the railroad situation if this big problem is to be dealt with intelligently. Passenger equipment, while crowded during the war, was crowded because much of the equipment had to be used in the transportation of troops; it was not crowded because the Government had control of the railroads. As a matter of fact, many thousands of passenger train-miles were saved by the ability of the Government to achieve results which private owners of the roads could not or would not have achieved. I say they would not have achieved it, simply because of the competitive system, which would naturally make them unwilling to surrender any of their business or traffic to competitors. During the period of Federal control, every possible economy was exercised in order to save both passenger and freight equipment and make as many cars and locomotives as possible available for the war need first and for the needs of the civilian population next.

I will now read that paragraph about the increased capacity resulting from standardization:

The increase in the rate at which standardized locomotives can be turned out is clearly shown by the following comparison of the two principal shops of the American Locomotive Co. during a portion of July and August, when the locomotives built were of individual design, with a similar period in September and October, when they were building standardized locomotives.

During five weeks beginning July 20, an average of $13\frac{1}{2}$ locomotives per week were turned out at the Dunkirk plant, while during five weeks beginning September 14, an average of $19\frac{1}{2}$ locomotives per week were turned out at the same plant. For Schenectady, during the five-week period beginning July 20, an average of 8 locomotives per week were turned out, while for the corresponding period beginning September 14, an average of $13\frac{2}{3}$ locomotives were turned out.

It will be seen that the increased production due to the standardized locomotives was about 50 per cent.

Of course, the method of building various types of locomotives is an element in keeping up the cost of production.

SERVING THE PUBLIC.

While putting the paramount war needs of the Nation first, nevertheless, every possible effort has been made by the railroads under Federal control to serve the public adequately and furnish every

possible facility for carrying on the ordinary passenger and freight business of the Nation. The railroads are public servants and in time of peace the first consideration should be to furnish adequate service at the lowest possible cost. To keep in touch with the public during the period of Federal control and see to it that their needs were given every possible consideration, the Division of Public Service and Accounting was established soon after the railroads were taken over and Hon. Charles A. Prouty was made director of the division. With this object in view, traffic committees were early established upon which the public was given representation. While these committees have no authority to change rates, nevertheless, their advice and recommendations are most helpful. What the shipping public desires above everything is stability of rates and reliability and adequacy of service. In the past thousands of rate changes have been made each month, which were worse than unnecessary. While passenger and freight service was of necessity interfered with during the war, efforts have been made during the past year to keep in touch with State railroad commissions and other local bodies to make certain that well-grounded and important complaints should receive prompt attention.

At the beginning of Federal control four express companies, working under contracts with the railroad companies, each railroad, generally speaking, having a contract with only one express company, were doing about 96 per cent of the express business of the country. The transportation business of the express companies was to utilize the passenger train service of the railroads, and to furnish pick-up and delivery service in connection therewith, so as to secure the expeditious transportation of property, and their service was so closely connected with railroad transportation that it was obvious from the beginning that similar unification of control and service must be applied to express transportation as to the railroads under Federal control.

This was accomplished through the organization of the American Railway Express Co., which took over the transportation business of the four large express companies above referred to, and entered into a contract with the Director General of Railroads for conducting the express business in a manner similar to that in which the four companies had previously conducted the express business on the railroads, subject, however, to substantially complete control of the business by the Government, and to an arrangement for sharing of profits. This contract was entered into June 26, 1918.

On July 15, 1918, a 10 per cent increase in express rates became effective, all of which was required to meet increased wages of employees of the American Railway Express Co.

Recently it became apparent that the power of control possessed by the director general under the contract would have to be directly exercised in order to deal effectively with problems of wages and working conditions for express employees and in connection therewith to make necessary increases in rates to provide for necessary wage increases. It therefore became important to make it specifically clear by presidential proclamation that the President had the possession, use, control, and operation of the entire transportation system of the American Railway Express Co., and accordingly a proclamation to that effect was issued.

Careful investigation indicated that the express company would require approximately \$12,000,000 per annum additional revenue for such wage increase. The Interstate Commerce Commission was consulted as to the method of applying the increases to obtain the amount desired and advised in substance that if it was considered necessary to increase the express rates sufficiently to make the express companies' proportion yield the amount stated, it considered the allocation of the increase proposed preferable to any other method of making the increase.

On November 19 an order was made increasing express rates to an amount sufficient to yield the express company, from its portion of the increased revenue received, approximately \$12,000,000. This method carried with it a corresponding increase in the railroad revenue from the express business which was required to maintain a proper relation with freight rates and for other reasons. The basis of the wage increases is now under consideration by the board of railroad wages and working conditions, the body which I established for hearing employees on the transportation systems under Federal control who seek changes in their wages or working conditions, and recommending to me the action to be taken on such requests.

The conduct of the express business has been greatly hampered by shortage of express and baggage cars which in turn has been largely caused by the absorption of those cars in handling troops and troop supplies. I am justified in anticipating that there will be steady improvement in the express service as additional express and baggage cars become available and as labor conditions are improved by means of the steps above described.

I have given you a statement of the transportation conditions a year ago, of the transportation achievements under Federal control during a year of war, and of the present situation.

THE FUTURE.

What remains to be considered is what permanent solution of the railroad problem should be adopted and what shall be the temporary form of railroad control pending a permanent solution.

In December, 1917, there were about 180 separate operating railroad companies in the United States with operating revenues of \$1,000,000 or more per year each. Seventy-five of those companies had operating revenues of \$10,000,000 or more per year each. There were several hundred companies whose respective operating revenues were less than \$1,000,000 per year.

POSSIBLE SOLUTIONS.

Broadly speaking, there are three general permanent solutions of the railroad question possible. The first is to send the railroads back into private control of the several hundred old companies. The second is to have outright Government ownership and control of all the railroads. The third is to reconstruct the railroad along logical lines so as to wipe out these hundreds of different railroad companies and substitute a comparatively few companies which under strict and close Government control can be expected to combine the advantages of Government control, including unified control of those

things where it is needed with the advantages of initiative of private management. Now, the form of such control, if undertaken, may present itself in a good many different shapes, and I am not undertaking to give formulas, I am only undertaking to state the principles which I think might be invoked in the consideration of the various plants. I am not committed to any particular plan. I wish to lay before you certain reforms which I think are indispensable and without which any so-called solution of the railroad problem will be a mere disappointing makeshift.

POLICY.

I am frank to say I do not believe that these important reforms can possibly be accomplished if we are to have in the future several hundred different railroad companies as we have had in the past, or even a hundred or even fifty different railroad companies. I believe they can all be accomplished either through a comparatively few railroad companies or through single Federal control. If the country prefers to continue in existence the hundreds of different railroad companies as in the past, I believe it will be necessary to abandon the hope of obtaining most of the fundamental reforms which I propose to point out.

THE TERMINAL PROBLEM.

One of the most difficult and important railroad problems in this country is that of terminal facilities. It probably means more to the producing and consuming public in the matter of delays, inconvenience, and transportation burdens than any other phase of transportation. It is generally understood that the delays and excessive costs do not occur principally on account of insufficiency of facilities on the road, but on account of inadequate terminals and of the heavy terminal costs.

It is not unnatural that this should be the case. It is a far simpler proposition to haul a train over a railroad than it is to break up that train in a terminal and distribute its cars to the connecting carriers. For one thing, it is easier to provide adequate track capacity on the railroad itself, most of which runs through the country, than it is to provide adequate track capacity in a terminal which is generally in the midst of a great city. But an even more important point is that when the train is being carried over the railroad between terminals it is being handled exclusively under one management and on a railroad which has been planned with unity of purpose. But the moment a train gets into a terminal where its cars must be separated and delivered to connecting lines, then we have to deal with facilities which have not been planned with unity of purpose and which under private control are not operated under a single management. The ability of one company to get rid of the business depends upon what its connecting companies have provided in the way of terminal tracks and other terminal facilities and upon the way in which those connecting companies carry on their operations. It is human nature that each company is much more interested in looking after its immediate exclusive interests, both in the facilities which it provides and in the way it operates them, than it is in building and operating its property so as to help its connections.

Generally speaking, the cities of this country and the railroad traffic that passes through them have wholly outgrown the railroad terminal facilities which were provided many years ago without any conception of the growth of the country's traffic. It is difficult to get the land to expand the terminals of any one railroad and each railroad company is jealously trying to prevent some other railroad from getting the advantage in new terminal facilities. Each railroad company wants to plan its new terminals so as to help its own business and so as not to help its rivals. This is perfectly natural. It is true that at times under pressure of critical necessity some of the railroads at some cities try to combine a portion of their terminal plants into a joint terminal enterprise. But it takes years for the railroads to agree on any such matter, and the comprehensiveness of the particular plan is generally interfered with by the selfishness of some particularly powerful railroad which feels that it can preserve certain advantages by refusing to put into the joint plan certain facilities which ought to be put there in the public interest.

The effect is that when it comes to terminal properties we get a clear-cut conflict of interest between the public and any particular railroad company. The public wants terminal facilities comprehensively planned and carried out so as to promote the greatest convenience and economy for all concerned, but each railroad company, under competitive conditions, is anxious to preserve any particular advantage which it already has and to increase that advantage when practicable. This clash of interests between the public and any particular railroad company and between the different railroad companies serving a particular terminal operates to produce deadlocks which to a large extent prevent terminals from being developed so as to meet the business necessities and so as to serve the public to the greatest advantage.

The condition exists, and is largely accounted for by the reasons above given, that the outstanding shortcomings in railroad transportation are inadequacies in terminal facilities. The great unnecessary burdens in the matter of inconveniences, delay and cost for which the producing and consuming public have to pay are largely due to these terminal conditions. There can be no successful solution of the railroad problem which does not provide a solution for these terminal difficulties. The greatest opportunity to reduce railroad costs for the future and to promote public convenience in transportation will be found in the solution of these terminal problems.

CINCINNATI—AN EXAMPLE.

A concrete illustration will help to emphasize the present difficulties. Cincinnati is an important gateway between the North and the South.

Three important railroads, the Chesapeake & Ohio, the Louisville & Nashville, and the Cincinnati Southern, reach Cincinnati by crossing the Ohio River. Four other important railroads, the Big Four, the Baltimore & Ohio, the old Cincinnati, Hamilton & Dayton, now the Erie, the Pennsylvania, and the Norfolk & Western, reach Cincinnati on the north bank of the Ohio River. The interchange of traffic between these lines at Cincinnati is enormous and the general public has a vital interest in this interchange being accom-

plished with the least possible delay and expense. Yet conditions are such that in times of heavy traffic Cincinnati is badly congested with freight and the ability of all the railroads mentioned, not only with respect to handling traffic through Cincinnati, but with respect to handling other important traffic, is largely hampered by the inability to get rid of the traffic which must pass through Cincinnati.

Each of the three railroads approaching Cincinnati from the South has a bridge across the Ohio River. The Cincinnati Southern bridge and the Chesapeake & Ohio bridge are so light that they can not accommodate the heavy locomotives which are used on those roads, so that there must be delay and cost and congestion due to the necessity of changing engines south of the Ohio River on those two roads.

The Louisville & Nashville has the use of a bridge which has only a single track and is therefore entirely too restricted in capacity to handle the traffic. The topographical conditions in Cincinnati are such as to make it exceedingly difficult to find suitable ground upon which to construct terminal facilities, and the densely populated area makes terminal facilities extremely costly. A considerable part of the important terminals in Cincinnati is subject to overflow in times of high water. To a very large extent the traffic which any one railroad brings into Cincinnati is traffic which must be moved beyond Cincinnati by some other railroad, so that more than one railroad generally has an interest in providing proper facilities for all the traffic moving through Cincinnati and all the railroads reaching there have a common interest in avoiding the congestion at Cincinnati, which in the past has constituted one of the most serious traffic situations in the country. Yet each of the railroad companies has its separate facilities, and while there have been various particular arrangements of a joint character, it still remains true that in all the years that have passed the railroad companies under private management have never been able to get together and put into effect any comprehensive plan which would result in terminal facilities equal to the situation. It seems fair to conclude from the failure of the railroad companies in the past to accomplish this result that they probably never will accomplish it in the future under corresponding methods of private management.

At the present time there are perhaps 25 to 30 freight houses in and around Cincinnati which, generally speaking, have been provided primarily for the particular use of separate railroad companies and without any purpose of combining all the freight-house facilities so as to serve the general public to the best advantage and at the least cost.

NECESSITY OF FINDING REMEDY.

It is evident that in view of the common interest which the railroad companies have in the traffic passing through Cincinnati some comprehensive plan ought to be worked out. No one railroad company can live to itself alone in a terminal like Cincinnati. No one important structure should be planned simply from the standpoint of a particular railroad company. The entire situation should be dealt with from the standpoint of the general public interest and the selfish interests of any particular railroad company ought to be

subordinated to the general interest. Yet under private management there is no way whatever in which the public can properly assert and accomplish its needs and the result both in construction of facilities and in operation is left to the haphazard play of the conflicting ideas of seven or more separate railroad companies and plans of the utmost importance are subject at any time to be defeated by the disagreement of one or more of these companies.

\$45,000,000 NEEDED AT CINCINNATI.

It is estimated that there ought to be spent in the near future about \$45,000,000 in the rehabilitation of Cincinnati terminals so as to make them equal to modern public needs, with probably \$25,000,000 additional for passenger terminals. This involves the building of a new bridge and the reconstruction and enlargement of two other bridges, the construction of convenient and commodious freight houses, the provision of adequate belt lines and adequate facilities for intercommunication between the different railroads. Practically every item of this large expenditure involved directly or indirectly the interests of two or more separate railroad companies. In fact, virtually the whole expenditure has to be made in the common public interest and without making the interest of any one railroad company paramount as to any particular item. If this matter is left to be worked out by the separate railroad companies without any controlling public authority to shape up the whole situation for the benefit of the general public, there is no reason to believe that it ever will be successfully worked out. Certainly the railroad companies have had many years in which to work out the problem and they have never done so. If it is not adequately solved the result will be that a great burden of delay and inconvenience, uncertainty, and cost will continue to rest upon the people of the United States simply because a thing which ought to obviously be done at Cincinnati in the public interest is not done and it will not be done because the power of government which ought to be exercised to promote the public interest is allowed to remain dormant and subordinate to the separate interests and to the disagreement of various privately managed railroad companies.

SAME CONDITIONS ELSEWHERE.

What is true of Cincinnati is true to a large extent of every important terminal in the country, particularly of Chicago and the terminals around New York Harbor. In the aggregate these situations constitute a great burden and menace to rail transportation and a serious obstacle to convenience and certainty to the public in the performance of that transportation. These situations must be met if transportation in this country is to be performed at a reasonable cost and without the intolerable congestions and delays which have periodically arisen in the past. This is more important with respect to the future development of the country than it is to the present conditions.

Nor is there any just reason why railroad companies should fear that such a comprehensive development of terminals is going to interfere with any legitimate separate interests of the railroad compa-

nies in the event they shall eventually be turned back into the old form of private control. Any comprehensive plans of terminal improvement which are for the general public and good will in the long run turn out to be advantageous to every separate legitimate railroad route in the country. No matter if the railroads do go back into the old form of private control with anywhere from 100 to 200 separate managements, it is inevitable that in the long run, and perhaps as the result of long years of hardship upon the public, there must be some comprehensive legislative solution of those terminal problems in the general public interest. The railroads will not be injured, but, on the contrary, will be benefited by a prompt public dealing with these matters.

OTHER EXAMPLES.

As a simple illustration, it is evident that the fact that the Baltimore & Ohio passenger trains are now taken into the Pennsylvania passenger terminal in New York has not resulted in injuring the Baltimore & Ohio or in causing any injury to the Pennsylvania, of which it has any right to complain. The public has been enormously convenienceed. If private control should return it is not to be anticipated that the public would again be subjected to the inconveniences and delay and expense incident to the Baltimore & Ohio going back to the use of its old and inconvenient passenger terminal at Communipaw, N. J. These terminal reforms which are done in the public interest will not only be of immediate and lasting benefit to the public, but they will also turn out to be more than acceptable to the railroad companies themselves.

TRANSPORTATION STRINGENCY THROUGH FAILURE TO CONTROL TRAFFIC.

The situation exists in this country that the transportation needs of the people are national and interdependent, despite the fact that the railroads are local and independent. Practically every community in the country is dependent upon a national and not a local transportation service. It is not true of any community that it can depend wholly or even principally upon its local railroad to transport what it produces and what it consumes, because directly or indirectly, what it produces must in some form go far beyond that railroad and what it consumes must in some form originate beyond that railroad. Failure of transportation at the Atlantic seaboard causes economic waste and suffering at points far beyond those served by the railroads which reach the Atlantic seaboard. Extensive failure of transportation in any part of the country has corresponding reactions in many other parts of the country.

Unavoidably the amount of transportation to be performed fluctuates from season to season and between good years and bad. At certain seasons, especially in prosperous years, the railroads are confronted with a "peak load" or a maximum load, which they have not been able in recent years to handle satisfactorily under private management. There has been widespread congestion of cars, both loaded and empty, in certain sections, the most acute shortage of cars in other sections, an inability to furnish transportation urgently demanded, an inability to get the freight which has been accepted

for transportation to destination in reasonable time. In short, we have been confronted with periodic conditions of transportation stringency. Diversified private management has proved that it can not avoid or meet these conditions.

Perhaps the greatest single difficulty is that under private management, with each company trying to prevent any traffic going to a rival, the amount of freight loaded has been dependent upon the desire and opportunity of the consignor to load a shipment and get a bill of lading for it—this is a repetition in some sense of what I have said before, but it is stated more compactly and I, therefore, repeat it—without any regard whatever to the ability of the delivering railroad to dispose of the traffic at destination at that time, or of the ability of the consignee to receive the traffic, if delivered. The result has been the indiscriminate throwing into the stream of traffic of everything which consignors wished to throw into it, and this has led to the most acute congestion at or near destination, analogous to an ice jam or a log jam in a river. This consequence has been injurious to the public as a whole, because it has reduced transportation capacity far below what it ought to be, has led to the greatest uncertainty and delay and consequent interruption and injury of business, with direct disadvantages to labor, and to the producing and consuming public. It is apparent that this fundamental difficulty has not been effectively dealt with under diversified private management. It is difficult to see how any railroad company would be willing deliberately to prevent the loading of traffic on its own line, when it is able to handle that traffic, simply because eventually the traffic may be a source of embarrassment to some connecting line. Every railroad will take traffic to its own capacity whether it can discharge it to connecting lines or not. That has been the rule heretofore. Indeed, it has been found practically impossible for a railroad company, which is itself congested with traffic which it can not deliver, to show sufficient courage to refuse to continue receiving traffic and to insist that the traffic must go forward by competing lines. That is a perfectly natural condition. It is an inherent condition in diversified, private, and competitive control.

MET BY UNIFIED CONTROL.

These conditions have been substantially met under unified control by the routing and distributing of traffic over the available lines and by the establishment of the "permit system," whereby traffic involving potentialities of congestion is not allowed to be loaded except upon showing that it can be delivered to and taken care of by the consignee at destination. During the autumn months of 1918, when traffic was at its heaviest, there was practically a complete absence of transportation stringency, which in the immediate preceding years had amounted almost to transportation paralysis. This condition was due largely to the "permit system." The ability to use this system in the public interest and regardless of any actual or apparent embarrassment to any particular railroad is probably the most important thing in preventing traffic congestion. It is feasible and easy under unified control. It is not easy or possible in any other way.

One of the essential reforms, therefore, is the adoption of some system to control traffic in the common interest.

As far as railroad tracks are concerned, the mileage of road tracks, as distinguished from terminal tracks, appears to be sufficient to take care, generally speaking, of a much larger tonnage than can be handled through the terminals. At times, however, particular railroads may become embarrassed by a surplus of traffic, even though it may be possible to care for the traffic at the terminal. Under unified control, in such conditions, the surplus traffic can be diverted to some other railroad reaching the same destination. Under private control this has not been possible. The company which was able to obtain the routing of the traffic has, generally speaking, not been willing, even though unable to handle the traffic successfully, to let it go to a rival railroad. The public ought to be provided with some system whereby unused railroad capacity may be used in the common interest in times of peace.

Senator POMERENE. Mr. Secretary, would you rather go on and finish it now or come back after lunch? I do not believe you can finish it under half an hour.

Director General McADOO. I am at the service of the committee, and your convenience is mine, gentlemen. I would just as soon finish it after lunch.

Senator POMERENE. I move that we take a recess for an hour and a quarter.

The CHAIRMAN. Did you say you would just as soon finish it after lunch?

Director General McADOO. Yes.

The CHAIRMAN. Would you rather finish it now and then come back to-morrow to be examined?

Director General McADOO. I would prefer to go on to-day. I am expecting to leave the city soon.

The CHAIRMAN. I would suggest, as we have started this, and it is fresh in our minds, perhaps it would be better to take an hour or an hour and a half for lunch and then come back and let Mr. McAdoo proceed, and then the committee can ask him any questions they desire.

Mr. McADOO. Will an hour be sufficient?

(The motion of Senator Pomerene was agreed to, and accordingly, at 12.35 o'clock p. m., the committee took a recess until 2 o'clock p. m.)

AFTER RECESS.

The committee reassembled at the conclusion of the recess, at 2 o'clock p. m., Senator Ellison D. Smith (chairman) presiding.

STATEMENT OF HON. WILLIAM G. M'ADOO, DIRECTOR GENERAL OF RAILROADS—Resumed.

The CHAIRMAN. Mr. McAdoo, you may proceed.

Director General McADOO. Mr. Chairman, I come now to "export traffic."

One of the most important classes of traffic is the export traffic, and this ought to be greater than ever in the future. The transfer of such traffic at the seaport from the railroad car to the ship involves great possibilities for congestion and delay. Under the old form of private management a particular railroad company naturally wishes

the traffic to go to its own port, and, even though that port may be momentarily seriously congested, is unwilling to turn that traffic to a rival line whose port may be free from congestion. Undoubtedly, an opportunity exists under unified control, even in peace time, to apportion the traffic among the ports and coordinate rail transportation with ocean transportation in such way as to greatly relieve the strain which at times arises from the inability of the particular railroad company to consider the interests of ports other than its own and to coordinate effectively with the ocean transportation. Whatever the solution of the railroad question a way ought to be found to control this matter in the public interest in times of emergency.

MOTIVE POWER AND CARS.

A further transportation factor of great importance is having adequate locomotives in good repair. In the past each railroad company has had its own locomotives and, generally speaking, has used them exclusively upon its own rails. If some of them were temporarily idle there was not generally any way of allowing them to be used temporarily by other railroads which were short of locomotives. In cases where there was no surplus of locomotives anywhere and where additional locomotives were far more needed, in the public interest, in some sections than in others, there was under private management no way under peace conditions of taking locomotives from the line where the public interest needed them least and putting them into service upon the line where the public interest needed them most. There was no way in which locomotives could be mobilized so that they can be used where they will do the public the most good. This, of course, has been accomplished under unified control and will be to an increasing extent.

The availability of locomotives depends upon their being in good repair and the ability to repair them depends upon the shop capacity. Under private control each railroad company has had its own shops. If those shops are taxed to their capacity, it is not, generally speaking, convenient to turn additional locomotives needing repair over to the shops of other railroad companies in order to receive the repairs. The result is that shops of some railroads may be partly or largely idle and shops on other railroads may be wholly unequal to the tasks confronting them. Yet, private management has never been able to work out any comprehensive and effective way for "matching up" the demand and supply of locomotives shop capacity. This important matter has been handled with great success under unified control and can be developed so as to be handled more systematically and successfully as time goes on.

COMPETITION.

Under private management there has also been an unnecessary use of locomotive power through duplication of train service for purely competitive reasons, whereas under unified control trains can be consolidated so as to release for useful service many locomotives which before had been used merely in transportation rivalries and without carrying loads to their full capacity.

It is obvious that cars can not be mobilized and utilized to the best interest of the public as successfully under diversified private management as they can be under unified control. When each railroad company is intent upon the traffic which it can obtain for its own line, it is inevitable that the most carefully drawn rules will not be fully carried out and that there will be a temptation, frequently irresistible, for a railroad company to retain cars for its own purposes when the public interest requires that those cars should be devoted to some other purpose. It is also true that the handling of empty cars so as to get them in the quickest time to the place where they are needed most can not be handled as well under private control, because the transportation of the empty car gives the transporting railroad no revenue, and hence it is not disposed to encourage any such transportation, except to the extent that it has had the benefit of the car when loaded and producing revenue. And yet, in many instances, in order to reach the place where it is most needed the car ought to be hauled by a line which has enjoyed no revenue from the car when it last moved under load. The results of unified management show important advantages resulting from unified control of the car supply. These advantages are strikingly apparent in the case of special types of cars, as, for example, tank cars and refrigerator cars.

Any permanent solution of the railroad question ought to give the public the advantage in times of stress of the mobilization of locomotives, and locomotive repair shops, and of the handling of all equipment in the public interest, including the emergency handling of empty equipment.

RATES.

In the matter of rates an immense advantage resulting from unified control is that rates can be made only so high as may be necessary to protect the situation as a whole, through paying the total expenses and producing only a sufficient resulting operating income to represent a fair compensation for the property employed. But under separate management there is the greatest diversity in the prosperity of the railroad companies. Some will prosper on very low rates, and some will fail on very high rates. The result is either that rates must be maintained on an average basis which, while producing high profits for some railroads, will still leave either railroads in bankruptcy or must be made sufficiently high to leave a margin of profit to the less prosperous, with consequently excessive profits to the most prosperous. The former course will result in the less prosperous roads being unable to perform their public service successfully. The latter course will result in the public being burdened with unnecessarily high rates. Under unified control rates which are sufficiently high on an average to protect the general situation will insure an adequate service on all roads and will, at the same time, protect the public against rates being made any higher than is necessary to meet the real necessities of the situation. I do not believe there can be any successful solution of the railroad problem which leaves in existence the great disparity in the results of the same rates to different railroad companies, because this will always cause question as to the propriety of any scale of rates and will keep the rate question in constant turmoil.

RESULT.

I believe that even under the handicaps of war conditions a sufficient showing has been made to indicate that all the reforms I have mentioned are desirable as permanent peace measures. Yet it is clear that the general public has not had an opportunity to appreciate this and to weigh the real value of what has been accomplished. There has not yet been an opportunity to give the public knowledge of the facts. In view of the far-reaching importance of any solution of the railroad question which may be adopted, the public is entitled to have, before the present Federal control shall be terminated, a reasonably fair test under peace conditions of the advantages to be derived from these reforms.

When Congress comes to take the responsibility of making a final decision as to which is the best permanent solution of the railroad problem, one of the most important considerations to which it must give attention is the question as to which solution will involve the least financial burden for the future upon the American public. This being true it seems to me of the highest importance that Congress should have an opportunity to form an accurate idea as to the cost of unified control of railroad operations under peace conditions. In order to have an accurate idea on this subject Congress ought to have before it at least the operations of the year 1919 under Federal control. Of course these figures can not be ready until the spring of 1920. If Congress undertakes to make its permanent solution of this great problem prior to that time it will do so without any adequate comparison between the cost of railroad operation under diversified private control as in the past, and the cost of railroad operation under unified control during peace time. It is true that the figures for the year 1918 will be available in about two months, but these figures will represent the operations under war conditions when the railroad management was subjected to many difficulties which will not exist under peace conditions, and when a great deal of traffic had to be handled regardless of cost in order to meet the insistent emergencies of war. It also happens that the 1918 returns include the operations of the most severe and costly winter that has ever been experienced in the life of the railroad business in this country, and the cost of clearing up the most serious congestion of traffic in the history of the railroads—a congestion existing at the time Federal control was assumed. Therefore, unless a final solution of this problem is deferred until a reliable view of the economies which actually arise out of unified operation can be obtained, the result will be the adoption of a permanent solution in ignorance of one of the most important factors to be considered.

This is why I have urged that Federal control be extended until January 1, 1924. It will be impossible to view the results of even one year of Federal control under peace conditions until the spring of 1920, and it will then be too late for Congress to legislate before the end of the 21 months' period. Even if it were possible to accomplish legislation in the next 12 months it would be done without any opportunity whatever to form a reasonable idea as to the advantage of unity in the matters I have mentioned under peace conditions.

Moreover, the operations under peace conditions with a tenure so short as the 21 months' period can not possibly constitute a fair

test. With such a rapidly approaching termination and with every officer and employee naturally speculating on his relations to the new management, whatever it may be, it will be impossible to secure the best results from the railroad organization and the nearer the termination approaches the more difficult will be the situation.

Indeed the difficulties with operation during the 21 months' period will be so serious that I do not see how the Government can be fairly asked to encounter them. It will be asked to continue an operation deprived of all the elements which would help in making the operation a success, and I do not see how it can be seriously urged as the proper course by any one except those who are anxious at all events to see the railroads restored to the control of numerous different companies just as in the past. It seems to me that anyone who wishes a fair and dispassionate study made as to what is the best ultimate solution and as to the extent to which the reforms I have mentioned are in the interest of the American public, and as to the way in which those reforms can best be accomplished, if in the interest of the American public, must be anxious to have a reasonable period of Federal control after the war under conditions calculated to make for tranquility and singlemindedness upon the part of the Federal railroad organization. I do not mean that this would be desired in order to accomplish Government ownership, but it seems to me it would be desired in order to test the utility of various reforms in the direction of unification which can be accomplished without Government ownership, but which can not be accomplished as I view the situation through an unrestricted return to the old conditions of management through from 75 to 100 different important railroad companies, and several hundred smaller railroad companies.

The 21 months' period will be entirely too short to accomplish any effective results with respect to improvements (and this is one of the most important points that I wish to bring out), and especially the terminal improvements which are peculiarly needed. Indeed, with such an early termination of Federal control there will be almost a complete stoppage of improvement work except what is obviously needed for the most urgent necessities. The result will be that terminal reforms which are badly needed in the public interest and which already have been delayed many years, will be subjected to further indefinite delay. It will also be true that needed railroad construction and extensions will be practically at a standstill.

In the nature of things the concurrence of the railroad companies can not be expected in matters of improvements and extensions during the 21 months' period except as to things of the most urgent and obvious necessity and where there is no possibility of conflict with the selfish interest of the particular corporation. This is not surmise because the evidences of it are already appearing—notably in the case of locomotives where budgets were submitted by the corporations calling for their purchase and where even now many of the corporations are challenging the purchase of locomotives made for their account and within the limits of their requests. It is natural that each company will prefer to hold all other matters in abeyance in the hope that it can make its own plans in its own way at the end of Federal control—that is where the period is so brief. This condition will not exist, however, if a five-year extension shall be granted. During the early days of that extension comprehensive improvements

can be carried forward in the public interest and the railroad companies will appreciate the impracticability of holding everything in abeyance for so long a period as five years. Of course as the five-year period nears its termination there would be a disposition on the part of the corporations to postpone matters which had not theretofore been entered upon, but by the time this condition would arise it is reasonable to expect that Congress would have been able to make a permanent solution of the whole problem in the light of an adequate experience with the present opportunities for unified control.

With the five-year extension, it will be practicable for Congress, say within two years from now, to enter upon a permanent solution of this question after Congress and the country shall have had before it the result of a complete year's experience of Federal control under peace conditions, Congress with that additional experience will be able far better than it is at present to estimate at their real value the reforms which I have submitted to you as being fundamental and Congress can then determine whether those reforms are so important as to make it desirable to adopt some other method of railroad ownership and control than that of such a great number of different companies as has been the case in the past.

VALUATION.

It must be remembered also that Congress has thought it important to provide for a valuation of railroad property and this valuation has been in progress for several years at large cost. I assume that it will be completed in the next two or three years. There is widespread conviction that no permanent solution whatever of the railroad problem can be made which does not put at rest the present insistent claims as to railroad overcapitalization. The question therefore arises whether Congress can satisfactorily deal with this matter in advance of the completion of the valuation which it has already prescribed, and whether Congress will wish to attempt a final solution of it before it can have the benefit of the valuation for which it has already appropriated such large amounts and to which it has attached so much importance. It is not possible, as I view the complexities of the problem, to effect any marked change in the form of railroad control that is not based upon a completed valuation of their properties.

SHIPPING AND THE RAILROADS.

The glorious victory for democracy in which America has played such a noble and conspicuous part has given her a commanding position in world affairs. Our own material development makes it more than ever necessary that we shall have access upon just and fair terms to the markets of the world for the disposition of our surplus products. We can not meet this situation unless we are prepared to go forward immediately. Opportunity does not wait for the laggard, whether that laggard be a nation or an individual. America must go forward immediately and organize her resources effectively for the purpose if she is to enjoy her share of the fruits of the keen and friendly rivalries in commerce in which she must engage with other nations.

Under the provisions of the United States shipping act the great merchant marine we are constructing is to be under Government control for a period of five years from the conclusion of the European war. If our splendid merchant fleet, built with the money of the people of the United States at a cost of more than \$1,000,000,000, is to be used successfully in their interest, it must be operated in effective coordination with the great railroad system of the United States. They must work together harmoniously and reciprocally. During this great period of world development, involving the vital welfare of the American people, it seems to me peculiarly wise that the period of Federal control of railroad transportation shall be made concurrent with that of Government ship control. Then we shall have a great transportation system on land and sea furnishing the reliable, effective service which will protect the interests of the American people and carry them forward upon a career of prosperity and success unequalled in any previous period in their history.

The CHAIRMAN. Your idea is, Mr. Secretary, in the reforms which you have outlined here, that in the 21 months you could not have the cooperation of the railroads and their employees, knowing that within 21 months they would revert, but you would have it if you had five years in which to put your plan into operation?

Director General McAadoo. My feeling about it, is this: With a short tenure, and its termination rapidly approaching, the effect upon the morale of the railroad organizations—I mean officers and employees alike—would be unfortunate. Let us take the case of the officers alone. Nearly all of them who are now operating railroads under Federal control, have been federalized; that is, they have been transferred to the Federal organization. We have a Federal manager, for instance, for the Federal property, instead of a general manager under the corporate agency. We have under them superintendents and other supervisory officers.

Now, with respect to the higher officers, particularly, questions are constantly arising, and of necessity must arise, between the corporation and Federal authority. It may be impossible for the corporation and the Federal authority to agree—questions about improvements, questions about revisions of line, questions about operation, questions about equipment purchases. In all such cases the nearer you approach the termination of Federal control, the more difficult it is going to be for that officer to make his decisions. I am not casting any aspersion upon those officers, because they have shown the finest possible disposition as well as great patriotism and loyalty—I am only speaking of human nature. When those controversies arise and the officers know that they must soon go back to corporate control, and serve corporations again, you are putting them in a very difficult position to pass upon such matters. Naturally Federal control of railroads during the short period will not be so effective as it would be in the longer period and the officers were not confronted with the possibility of an early return to corporate management.

Now, let us take the employees. They are kept in a good deal of a ferment when there are impending changes of authority. I know that when the Government took over the railroads there was very considerable ferment among employees from one end of the land to the other; dissatisfaction with conditions. A great deal of feeling existed

When the Government took the roads there was for a time a very serious pause; the men did not know just what the situation was. They did not know just where their allegiance lay, and until those things were straightened out and it was finally made evident that the Federal authority was in control, the morale of the railroad organizations throughout the country was at a very low ebb. Since then the situation has been very much improved. The longer Federal control has existed the more men have come to realize that there is a central authority, and that authority is going to remain for a reasonable period of time, at least as long as war lasted. There was no definiteness about the termination of control and they went forward without any hesitation or question.

I think that with 21 months as the limit of time after peace has returned, and with the agitation of the railroad question during that period (because discussions are bound to follow), and with a political campaign impending, I think it is very likely that there will be a very large impairment of the morale of officers and men who are operating these railroads, and my opinion—it may not be worth any more than anybody else's opinion; I simply put it forward for what it may be worth—is that during that period there will be a very marked impairment of the morale of officers and men, with corresponding inefficiency in railroad administration and in operation. I think that is inevitable. It is merely human nature, and I intend no reflection upon them when I say that.

Now let me say one thing more in answer to the question; that is the question of cooperation between corporations and the Government. I think it is a very serious one. During the period of the war the corporations have cooperated much more willingly—as far as they have cooperated—under the stimulus, of course, of patriotism and war conditions. I think they are disposed to raise as many questions as they can during Federal control in peace time. In so short a period as 21 months I think their opposition will be very marked with respect to essential improvements which require time for completion and large expenditure, and also with reference to equipment. Those questions are arising now, and I think the effect will be that, in the absence of agreement with the corporations, essential work will not be carried forward during the short period of 21 months, or else if the Government should proceed to execute that work for account of the corporations, it will do so with the necessity of financing it and then having a lawsuit probably at the end of Federal control to secure reimbursement of the Federal Treasury for the outlays.

I think with the five-year period, for instance, a program of improvement could be entered upon, and I think we would more likely be able to get agreements (with respect to many of these improvements—the more exigent ones) with the corporations and also with respect to the best methods of financing them. There should be sufficient time to carry those improvements forward to completion. Many of them could not possibly be completed in the 21-months period, and that would apply particularly to the terminals, as I have already stated, and also to extensions or branches that might be built, and which it might be very desirable to build for the development of the country. I think there would be a period of hesitation, or an arrestment of development during so brief a period as 21

months, when the whole question was under discussion and when a state of ferment would be produced because no one would know what the solution was going to be.

Now, with five years control: I think that after two years or three years, we would have had under peace conditions such a test and demonstration of the value of unified control and direction, effectively asserted in the common interest as to make it possible for the Congress to take up legislation for a permanent solution, so that you would get your legislation before the end of the five-year period. I think the test under peace conditions, and with adequate time to make it, would be of very great value.

The CHAIRMAN. What in your opinion would be the change of attitude of the owners and operators of these railroads under peace conditions from that which obtained under war conditions? Under war conditions you had the patriotic cooperation of all parties interested for certain specific national objects. Under a 5 or 10-year period—just say it was limited, knowing that certain conditions were being worked out looking to a modification of the Federal relations of the roads, what effect would their attitude have on the Government operation of the roads during peace conditions as compared with war conditions?

Director General McADOO. I do not think you will have as much cooperation under peace conditions, especially if the period of control is short. Everyone would be striving for a solution during that time, and those who had a selfish interest to serve would interpose every possible objection or obstacle to successful Federal administration if that would further their own plans. This would keep the whole business in a state of uncertainty and agitation. But they could not do that with respect to the five-year period because the time is too long. Certain things would have to go along any way in that case and I think it would give a period of composure and would take the subject out of the realm of discussions, which are so necessary to a successful test.

Senator WATSON. Just one question on that line, if you please. Have you said, and is it your policy, that if the five-year plan is not adopted, because of the reasons you have stated here, to cast the roads back at once?

Director General McADOO. I have no policy about that, Senator. Senator WATSON. You have not?

Director General McADOO. I have no right to determine the policy. My conviction is very strong that the roads ought to be turned back as promptly as possible if the time is not extended. That is my conviction as to the wise course to pursue. The disadvantages of attempting to operate them for a shorter period, and the evils that would result therefrom, would be far greater than if we turned the railroads back to private control as soon as it is possible to do.

Senator WATSON. Of course, this is a short session of Congress, and the appropriation bills have to be taken up, and legislation on this subject is almost impossible. If there be no extra session, Congress will not convene again until December, 1919. It will be impossible, of course, to legislate in the meantime, so that your 21 months would probably be taken up anyway, would it not, before legislation could be enacted, or nearly so?

Director General McADOO. It would seem to me possible to pass at this session of the Congress a simple amendment extending the period of Federal control for five years. For a permanent solution, it may be impossible to get legislation even within 21 months, because the Congress may not meet, as you suggest, until December, 1919, and the remaining time might be insufficient. What we need is to extend the period for five years, so that we could have an opportunity to deal with it in a period of calm and with deliberation. I feel again—

The CHAIRMAN (interposing). What effect—

Director General McADOO. I feel again that what has been accomplished, even under war conditions, is of such infinite value to the public that we ought to carry the experiment still farther, in order to realize still more the benefits that will come from this unified operation. Certainly none of us should be afraid of the result of a fair and intelligent test. The American people are, it seems to me, entitled to that, and it also seems to me that none of us should fear knowledge. The more knowledge we get the greater progress we can make toward a solution of the difficulty. The net earning power of the railroads will have a vital bearing on some of the plans for a permanent solution of the problem, and the true earning power of the railroads can not be ascertained unless there is a reasonable test under peace conditions.

The CHAIRMAN. What effect would the reforms that you have indicated in your presentment here have upon the return of the railroads to private ownership when you have spent this money? It would take a large expenditure of money to bring about the reforms, say, for instance, at Cincinnati that you called attention to, and at New York, where you have spent large capital in development, and bringing about this condition that you suggest now at the end of the five-year period for the return to the private owner, would not that in itself affect the ultimate solution, whether that was successful or whether it was not?

Director General McADOO. Do you mean the mere fact that money had been spent?

The CHAIRMAN. No; the mere fact that you have brought about the condition that they are operating under now; would the fact of the return of the railroads to private ownership work out any other solution? Say that you had been operating for five years under your suggested plan; if it did not work out satisfactorily, then you would have a condition like the one that you have now. You would have to find some other solution which would cause a loss of time and a loss of money, to go back to whatever solution you did find, if yours was not satisfactory.

Director General McADOO. I should think, Senator, that Congress would not wait until the end of five years before it began formulating legislation. I think after probably two or three years of test it could go forward and find a permanent solution of the difficulty. That is my feeling about it.

As to the expenditures that would have to be made during the five-year period, it would be possible, certainly more feasible, to secure agreements with the corporations, not only as to the character of improvements but as to the method of financing them, because some of those improvements could be deferred 21 months without

serious hurt to the public interests, but they could not be deferred for a five-year period without serious injury to the public interest. Therefore, with a five-year period the corporations would have to come to an understanding with the Government as to what ought to be done. But if a comprehensive plan for these terminal improvements could be agreed upon with the corporations, then the powers of the Government, the power of unifying and controlling these terminals in the common interest can be exercised and will result in producing very great efficiencies and economies, much greater than would be possible under diversified control. Many improvements could, and would undoubtedly go forward, and be completed within five years, and the public would get the benefit of them, and they would have a very decided effect, I think, in reducing the cost of transportation.

The CHAIRMAN. Have you any reason to believe that you would have the cooperation of the railroad corporations in working out these reforms made under great expense?

Director General McADOO. I can not say, Senator. I think you will have more cooperation under the five-year test period than you would have under the 21 months, especially if you were trying to find a solution of it in the 21 months. In all of these great problems one must reckon, I think, constantly with the play of self-interest, and I am speaking of that from the standpoint merely of human nature—that is, selfish interest of individuals and the competitive interest of these corporations. Now, if it is not to their interest to go along with the Federal Government under the 21-month period, if it is more in their interest to make Federal control during the 21 months a failure than a success, you would not get their cooperation. That is human nature. You have to reckon with that.

On the other hand, the public interest is not selfish interest. The public interest is the common interest, and therefore as long as we stick to the public interest and are doing the things which are for the common benefit, the selfish interest will have to give way, if we simply keep the command of the situation. With a five-year control we would have ample opportunity to make a proper demonstration, and I think that period would be sufficiently long to make it to the interest of the corporation, to the interest of the security holder, as well as to the interest of the mass of the people to bring about the necessary cooperation. Congress having determined upon a five-year test, everyone would feel that the question was settled for that time and would get down to business again and make the best of it, and we would get the best out of it. I think you would have a very satisfactory operation of the railroads during that time, and I think there would be a very much greater disposition to cooperate all around.

Senator POINDEXTER. Have you made any definite estimate, Mr. McAdoo, of what it would cost to construct the necessary physical facilities—for instance, bridges and tracks and other things at Cincinnati, so as to enable the proper coordination of the business of those various roads and its prompt dispatch in that particular region?

Director General McADOO. Yes, sir. It will cost about \$45,000,000, on the basis of present prices, for freight terminals and track arrangements and facilities, and it would cost about \$25,000,000 more for the necessary passenger facilities. It is rather an extraordinary fact, gentlemen, that the railroads have frequently united on a passenger

union station or terminal but rarely are they found to unite upon a freight terminal. Now, the freight terminal, after all, is of more importance than the unified passenger terminal—I mean in its general effect upon the commerce of the country and the cost of transportation.

Senator POINDEXTER. How long would it take to make those improvements?

Director General McADOO. You mean the Cincinnati improvements. I should think it would take five years.

Senator POINDEXTER. How would you arrive at the adjustment of the financing of that project if the railroads go back to private ownership at the end of five years?

Director General McADOO. You would have agreements with them before you undertook it.

Senator POINDEXTER. That would depend upon voluntary agreement?

Director General McADOO. Yes.

Senator POINDEXTER. Could you make those voluntary agreements in the absence of having the future disposition of the road settled and ascertained?

Director General McADOO. Under the present Federal control act those improvements can be made for the account of the corporation, but of course they are free to question it. If the improvements are in the public interest, they could be made by the Federal authority and financed out of the revolving fund. Settlements could be enforced through the courts finally if the corporations would not settle voluntarily.

Senator POINDEXTER. I notice in your testimony this morning that you emphasize the fact that the roads themselves, under private operation had not provided themselves facilities. They were rather handicapped, if not absolutely prevented from undertaking anything of that kind, were they not, by the antitrust act?

Director General McADOO. I do not think I can say that as a fact. Many reasons have operated to prevent them from improving terminals. Sometimes it is insufficiency of credit; sometimes the cost is prohibitive. Sometimes they do not make terminal improvements because it is more to their interest under competitive conditions to maintain existing advantages and therefore they keep conditions as they are. I do not know of anything in the antitrust law that prevents them from having a joint terminal.

Senator KELLOGG. May I suggest, along the line of the question of the Senator from Washington, that when they undertook to unify the terminals of St. Louis the Government brought suit against them?

Director General McADOO. The passenger terminals?

Senator KELLOGG. No; the freight terminal.

Director General McADOO. I was not aware of that.

Senator POINDEXTER. Have you attempted to work out a plan by which this coordination could be had—unification of service at such points as that under Government control and private operation?

Director General McADOO. I do not catch your point exactly. Will you please repeat that?

Senator POINDEXTER. Could not the unification that you speak of, and coordination of service at terminals and other places, such as you have pointed out the need of, be had under Government control and private operation or private ownership?

Director General McADOO. It could be, but that implies a permanent solution of the railroad problem, which would maintain private ownership under effective Federal regulation. It would depend largely on the character of the legislation. Private ownership with strong Federal regulation is one form of permanent solution which of course ought to be considered.

The CHAIRMAN. You mentioned in your review of the situation a matter which was of more vital interest to us under war conditions, that is becoming more apparent under war conditions than it might have become apparent otherwise, and that is the congestion at certain ports, and the lack of port facilities through the self-interest of the roads controlling them. Do you think a plan could be worked out by which the roads could utilize these other ports, because we have to appeal to their self-interest in the money that they make—that it could be worked out under this unified control, by which the ports might all be used to avoid that congestion under the plan that you suggest?

Director General McADOO. I think that is difficult, if not impossible, under private control as it has heretofore existed. It will be doubtful under any form of private control unless a superior Federal control of a very strong character is exercised. So long as the Government is in control, as it is now, it can direct the traffic and distribute it to the different ports for export trade and for certain of our coastwise trade, so long as the Government also controls or can control the distribution of ships to the different ports. Under Federal control we have been distributing the traffic to the different ports of the country so as to avoid overtaxing the facilities of any particular port. We have brought about very great relief in enforcing the larger use of Hampton Roads, for instance, and one of the reasons why we took over the coastwise steamship lines was to be able to coordinate them effectively with the railroads and carry a lot of traffic to the different ports on the south and on the Gulf, instead of carrying it by rail through the congested terminals of the country.

The CHAIRMAN. Do you not think the question of rates throughout this country will finally be determined by the utilization of all available ports nearest to the port of origin of the traffic?

Director General McADOO. I think it will have some effect on rates so long as the Government controls the merchant marine. Let us take the export business. As long as the Government has control of the railroads and of a great merchant marine we have the power to distribute traffic through the various ports of the country, and coordinate railroad operation with the facilities at each port so that we will get a better distribution of traffic and a more economic handling of traffic under those conditions than we can possibly get under the old form of private control. Of course, the most favorably situated railroads, those that dominate and control most of the export traffic, are naturally going to send all the traffic they can to a port on their line. They are going to carry it to the port which is their favorite terminal, and where they can make the most money out of it. That is an inherent defect in the competitive system of diversified control and operates detrimentally to the development and usefulness of many important ports on the Atlantic, Gulf, and Pacific coasts.

The CHAIRMAN. I thought perhaps you had that in mind when you suggested the elimination of so many corporations, and bringing them down to an infinitely smaller number in order that a given territory might include certain ports that are not now used and which are practically in the territory of a given corporation, to whose interest it would be to use those ports, under a more unified system. Is that one of the objects you had in view?

Director General McADOO. That is one of the objects that could be accomplished under unified control, and I think it would be a very serviceable thing to the country if that could be brought about. We have many admirable ports in the United States which are comparatively neglected, and it would be of advantage to the public interest in every way to make a larger use of those ports—on the Gulf, on the Pacific, and on the Atlantic—and in many instances it would result in cheapening very much the cost of transportation.

Senator UNDERWOOD. Mr. Secretary, how do your contracts with these main trunk lines read now; what is the termination of them?

Director General McADOO. They terminate with Federal control.

Senator UNDERWOOD. And that is fixed as a period of 21 months after the war?

Director General McADOO. No; it is fixed according to the terms of the statute. The statute puts a maximum limit of time on Federal control, but it does not say that Federal control shall continue for 21 months.

Senator UNDERWOOD. I mean, that is the extreme limit.

Director General McADOO. Yes; that is the extreme limit.

Senator UNDERWOOD. If the Congress were to extend this period, it would require remaking of all those contracts, would it not?

Director General McADOO. I think not. It would merely require an extension of them, by agreement.

Senator UNDERWOOD. I know, but it would require a new agreement with the railroads?

Director General McADOO. If it were merely an extension of time, it would not alter the terms upon which the contracts are based. You could merely stamp the extension upon the agreement with the concurrence of both parties.

Senator UNDERWOOD. But I mean that the minds of the contracting parties would have to come together again?

Director General McADOO. On the extension; yes.

Senator UNDERWOOD. Surely. In other words, that would mean making a new contract, although not necessarily changing the terms. Now, what I want to ask you is this: Do you think that the main routes, or the trunk lines as a whole, if Congress were to pass a law authorizing an extension of this period for five years, would be willing to renew the contract on a five-year basis?

Director General McADOO. I do not know. I think they would; but it does not make any difference.

Senator UNDERWOOD. Well, you could not do it if they were not?

Director General McADOO. Oh, certainly; we could extend the time of control, whether they agreed to it or not.

Senator UNDERWOOD. If we extend the time, and they do not agree, that is confiscation of their property?

Director General McADOO. Not at all. A remedy is provided for them in the Court of Claims. You can not avoid existing contracts by statute.

Senator UNDERWOOD. We confiscate their property, and they have to go to the Court of Claims and sue. They are now working under a lease system; you have practically leased these roads for a term of not to exceed 21 months after the termination of the war, and their damages are to be measured by the rental value. Now, if we extend the term for five years, I think we agree that that would void the present contract, although, if they agreed, they could merely change the date of the contract, but the minds of the two contracting parties would have to come together again, and it would, in effect, require a new contract; but if they should refuse, I am not so sure that the Government could confiscate their property for public use and take it over, without being required to pay the real value of the property. Therefore, that brings me back to the question, which I think is a very material one, as to whether there would be, if the Congress had in mind the extension of this time, a consensus of opinion on the part of the great trunk line railroads to agree to such an extension of time, or whether they would practically force us to take them over.

Senator CUMMINS. I might remark, Senator, that there have been but very few of those contracts made.

Senator TOWNSEND. I was going to ask how many.

Senator CUMMINS. Not more than half a dozen.

Director General McADOO. We will get you a list of the short lines; but I think, Senator, your conception of the legal effect of the extension is incorrect. In the first place, as to those corporations which have already signed that contract, it would be operative for the 21 months following the proclamation of peace. If they did not agree or consent to the extension, then their compensation could be determined in the Court of Claims for the user of the property for the remainder of the term. As to the corporations which do not sign the agreement, they would expect to go to the Court of Claims for the compensation for the whole term.

Senator UNDERWOOD. Mr. Secretary, we discussed this a year ago, you know, and it seemed to be the consensus of opinion that where we took them over for a definite term their damages might be the rental value, but that if we took them over for an indefinite period of time their damages should be the value of the property and not the rental value. It seems to me that there is a difficulty that would confront us if we should attempt now to extend the time and to void the contracts that have already been made.

Director General McADOO. The contracts that have already been made would be effective for 21 months anyhow.

Senator UNDERWOOD. Unless we void them by statute.

Director General McADOO. Yes.

Senator POMERENE. I suggest that the list be put in the record.

Director General McADOO. Yes; there are 27.

Senator CUMMINS. Does that include the short lines also?

Director General McADOO. No. We will give you the short lines.

Senator CUMMINS. No; I do not care anything about them. You will put that in?

Director General McADOO. Yes. Here it is [exhibiting paper].

(The list above referred to appears below, as follows:)

Atchison, Topeka & Santa Fe.	Colorado & Southern Railway.
Augusta Southern Railway.	Fort Worth & Denver City Railway.
Buffalo, Rochester & Pittsburgh Railway.	Gulf, Texas & Western Railway.
Georgia & Florida Railway.	Missouri & North Arkansas.
Great Northern Railway.	New York Central Railroad.
Lehigh Valley Railroad.	Detroit Terminal Railroad.
Minnesota & International Railway Co.	Cincinnati Northern Railroad.
New York, Ontario & Western Railway.	Lake Erie & Western Railroad.
Norfolk & Western Railway.	Lake Erie & Eastern Railroad.
Northern Pacific Railway.	Muncie Belt Railway.
Richmond, Fredericksburg & Potomac Railroad.	Chicago, Kalamazoo & Saginaw Rail-
Chicago & North Western Railway.	Indiana Harbor Belt Railroad Co.
Chicago, Burlington & Quincy Railroad.	Pittsburgh & Lake Erie Railroad Co.
Chicago, St. Paul, Minneapolis & Omaha Railway.	way.

Senator TOWNSEND. How many of these roads have you not made contracts with?

Mr. HINES. About 170 are under Federal control, of the class 1 roads. The others are under negotiation.

Senator CUMMINS. Mr. MeAdoo, your proposal or recommendation is for an extension of the period of Government possession until January 1, 1924?

Director General McADOO. Yes.

Senator CUMMINS. Do you mean an extension under the existing law, with all the powers and obligations of that law?

Director General McADOO. That is what I had in my mind, Senator, excepting in so far as Congress might see fit to modify it.

Senator CUMMINS. That means, then, for a period of five years we are to give the President the authority to put aside all State law, all orders of State commissions, and all other regulations which pertain to this subject?

Director General McADOO. If the extension is made under the present law, then to the extent that the Federal authority is exclusive, Senator, that would, of course, follow.

Senator CUMMINS. Well, under the present law it is absolutely exclusive. That is, the present law, as a war necessity, I take it—and for that alone—gives to the President the right to nullify all legislation, including acts of Congress, I take it, and all orders or regulations that had been made upon the subject?

Now, I am not questioning the propriety of that as a war measure, at least not at this time; but is it your proposal that that authority shall be continued during five years of peace?

Director General McADOO. I think that we can not operate the railroads successfully unless we have a concentrated power somewhere, and I think the President ought to be possessed of that power—the same power he has now—except to the extent that it may be considered wise to modify it in some details. My own judgment about it, from the experience I have had, is that the power ought to be preserved in substantially its present form if you are going to get results. I do not believe that it will be possible to effectively operate the railroads of the United States and to get the benefits of unification unless the Federal control, for instance, over railroad rates is preserved for the period of the test; and I think that with respect to the other matters that are involved, and

he questions that have arisen between the State commissions and Federal control—and, by the way, there are not many yet—that Federal authority ought to control.

Senator CUMMINS. Is it your opinion, too, that Federal authority should control, without regard to the character of the regulation, whether it related to interstate or intrastate traffic or commerce?

Director General McADOO. I think that under Federal control, to be effective, all traffic must be treated as interstate traffic.

Senator CUMMINS. And you have no doubt, I assume, that we have the constitutional authority in time of peace, and as a regulation of interstate commerce, to nullify or set aside all the State statutes and State regulations with regard to intrastate traffic?

Director General McADOO. I think the Congress has authority.

Senator CUMMINS. I want to get your view about this, because it will become very material. Do you believe also that during this period of five years the President or the Director General should have the authority to make rates and to put them into effect, without reference to the jurisdiction of the Interstate Commerce Commission to suspend them or to inquire into them, before they are put into effect?

Director General McADOO. I do. I think it is very essential. I think the power reserved to the Interstate Commerce Commission of reviewing the rate after it goes into effect, is all that is necessary. In other words, under Federal control, I conceive it to be our duty to operate the railroads at cost, and not to make a profit. Now, unless you have the power of fixing rates, when costs are ascending you can not meet the situation. Under the present law the Interstate Commerce Commission has the power of review of those rates and, if a mistake is made, of course it can be remedied.

Senator CUMMINS. But the Interstate Commerce Commission is just as much a part of "Federal control" as is the director general, I assume?

Director General McADOO. Yes; but only in the sense that the Supreme Court of the United States is a part of Federal authority.

Senator CUMMINS. But do you not think it would be more compatible with the general public interest, and more in harmony with the demands of the shipping public, that the Interstate Commerce Commission should have, if this time be extended, the same authority over rates that may be established by the director general, that it has heretofore had over rates established by the railroad companies?

Director General McADOO. The trouble about it is that it might take a very long time to get a decision. The whole thing would perhaps be suspended for many months and, in the meantime, the Government would be put at the disadvantage of not being able to make the property earn the cost of the service.

Senator CUMMINS. That might not be, but, of course, you are assuming that the acts of the director general are always wise?

Director General McADOO. Not at all.

Senator CUMMINS. That is not always true?

Director General McADOO. I have to admit that, Senator. No one can claim infallibility.

Senator CUMMINS. Yes. I have observed that under your present authority to initiate rates and to put them into effect and under the very proper reservation which you made at the time, Order No. 28, I think it was, was issued, you have yourself revised, reviewed, and

modified a great many of the rates which you put instantly into effect. Have you any idea of the amount of confusion and the injustice brought about by putting those rates into effect without any opportunity for comparing them with or adjusting them to other rates and to other conditions?

Director General McADOO. Senator, we had a job to do, and that was to lick the Kaiser——

Senator CUMMINS. Oh, I want you to understand, Mr. McAdoo, that I am speaking now of a time of peace.

Director General McADOO. Yes; I am coming to that, Senator.

Senator CUMMINS. I am not asking these questions in a critical way at all.

Director General McADOO. Oh, no; I quite understand that.

Senator CUMMINS. I fully appreciate the task you had and the burdens you undertook, but I am speaking now of times of peace.

Director General McADOO. I did not misunderstand you, Senator, and I do not want you to misunderstand me, because I know that you are pressing your questions in that spirit, and I am giving you my answers in the same spirit. But I do want to explain that the manner in which the power has been exercised under war conditions does not mean that it will be exercised in the same way under peace conditions. We had that great job to do and it was necessary to put that rate increase into effect so that the railroads could be made self-sustaining, in order that we might not throw an additional burden on the Federal Treasury. Now, of course, we all recognized that a percentage increase in rates would of necessity not only create new inequalities but would aggravate old inequalities, but it was necessary to get the rates in promptly and then to review them ourselves, and also to have the Interstate Commerce Commission review them upon complaint; and therefore I announced at the time that order went into effect that that review would be made. Now, an exigency made that action necessary immediately. Under peace conditions I should not for a moment, if I were running the railroads, initiate rates in that manner. The question would first be studied thoroughly and the interests affected would be given an opportunity to be heard before the rates were put into effect.

Senator CUMMINS. It would be quite proper, then, to restore to the Interstate Commerce Commission, if the time is extended—or whether it is or not—the jurisdiction which it formerly exercised over rates and over the suspension of rates?

Director General McADOO. I think that would be a mistake. I think the power to initiate rates should remain in the President. I think the power of review should be preserved, and I think you should provide that the President should not initiate a rate unless he had given 30 days' notice and an opportunity to interested parties to be heard.

Senator CUMMINS. I do not think there is any safety in changing rates without a chance for a hearing upon the part of those whose business is to be affected by the change. It seems to me that is an essential thing always; and the danger, as I look at it, in times of peace, when things can be postponed until they are heard, is in making those changes without any hearing.

Director General McADOO. I should think that when you come to deal with a permanent solution of the problem, those matters could

be properly safeguarded—and, of course, they will be properly safeguarded. It does seem to me, however, under present conditions, that in no case ought the power of the President to initiate the rate be taken away, and that at most we ought to put no greater limitation upon him than that of giving notice before he initiates a rate, and giving public commissions and the shipping public an opportunity to be heard during the term of that notice.

Senator CUMMINS. Let me now pass on to another phase of the present law: Would you be willing to continue to pay to the roads that you now have in possession compensation at the standard rate or the rate fixed by the present statute?

Director General McADOO. I think that for the test period we could afford to do that. I do not mean to say that, of necessity, we ought to do it, but I think we can afford to do it. I would say, upon the whole, that it is just as well to preserve the stability of the whole situation until we can determine what is the ultimate solution of the problem.

Senator CUMMINS. Then, what are known as "the short-line roads" were entirely excluded from Government possession?

Director General McADOO. Yes.

Senator CUMMINS. And you are slowly making a few contracts with the short-line roads, from my standpoint without much authority of law; but that is neither here nor there for the moment. Do you want those short-line roads to continue in the same uncertain and unsatisfactory status that they now occupy?

Director General McADOO. My feeling about the short-line railroads, Senator, is this: I think that if we have a five years' extension the short-line railroads ought to be included in Federal control, because the purpose of such an extension would be to test the whole transportation problem, with a view to determining the best solution of the whole thing and at the same time with a view of giving the best service to the people of the country. In those circumstances I think the short-line railroads ought to be included. I think the test should embrace all facilities of transportation. If there had been no limitation on Federal control in the present act, I should have favored taking the short lines over along with the trunk lines.

Senator CUMMINS. I am glad you have come to that conclusion.

Director General McADOO. As a war measure, Senator, I did not feel justified in taking the short-line railroads under such a limited period of Federal control.

Senator CUMMINS. I think they should have been included from the beginning, and probably if there is to be an extension, I think they should be included. Now, you said a few moments ago in your review of the situation, that probably there would be required \$500,000,000 annually for extensions and betterments—additions and betterments to the railroad plant. If the time be extended five years, that will mean an expenditure of \$2,500,000,000. Where will you get the money?

Director General McADOO. I think, Senator, that the credit of the railroads, or at least most of them, will be sufficient, provided we permit them to earn enough to enable them to meet their fixed charges and pay their customary dividends.

Senator CUMMINS. You mean that the various railroad companies will borrow the money?

Director General McADOO. Yes; I think the credit of most of them will be sufficient when backed by the moral and, in extreme cases, the material assistance of the Government, to support the major improvements that should be made.

Senator CUMMINS. You know that most of those railroad companies have mortgages at present?

Director General McADOO. Yes.

Senator CUMMINS. Securing issues of bonds?

Director General McADOO. Yes.

Senator CUMMINS. And I assume that future issues of securities to the extent of \$2,500,000,000 could hardly be brought within those mortgages; so what security are you going to give to those who buy those bonds?

Director General McADOO. Well, I think in the case of equipment that car trusts, properly issued—

Senator CUMMINS (interposing). I was not thinking of equipment; I was thinking of extensions and betterments.

Director General McADOO. Equipment will represent a very large part of the future expenditures.

Senator CUMMINS. It has not been in your mind that the Government should undertake any obligation upon these securities?

Director General McADOO. No, except as may be necessary in specific cases.

Senator CUMMINS. You realize that it would be rather difficult for the Government to compel the companies to issue these obligations, and to expend the money partly on their own property and partly upon other property?

Director General McADOO. My feeling about it is this, that with the Government back of the railroads, and especially if they are earning enough to pay their fixed charges and customary dividends, and to have a reasonable surplus—

Senator CUMMINS (interposing). How is the Government back of the railroads under such circumstances?

Director General McADOO. I will explain, Senator, if you will allow me.

Senator CUMMINS. Certainly.

Director General McADOO. If the period is extended for five years the Government will be behind them to the extent that it will administer them in the common interest. Now, to the extent to which that is done, the corporations which have strength can finance, with the Government's assistance, I mean to say, its moral influence and support—can finance, I think, the necessary improvements and the necessary purchases of equipment which may be agreed upon. Of course, if they do not agree upon them, you have got to exercise the power under the present law, if that law is extended.

Senator CUMMINS. There is in the present law authority for the Government to expend money, as I assume, and to fasten the responsibility for it, in some rather vague way, upon the property as a lien, but I think that kind of security would not be accepted in the markets of the world very readily.

Director General McADOO. I think that these corporations would have a great deal better opportunity to use their credit, and could perhaps raise more money on their credit with the Government back of them to the extent that it is to-day than if they were turned back to private control.

Senator CUMMINS. That is what I can not understand in your position. You are expecting the cooperation of the railroad companies, and at the same time you have submitted the most cogent and powerful argument in favor of a plan of unification which involves the loss of all individuality in corporate management. Now, how can you expect the cooperation that you suggest, looking at human nature as you have described it?

Director General McADOO. I think there is no more destruction of the individuality of corporate management under the five-year test period than under the 21-months test period, and I think you will be more likely to have that corporate cooperation in the longer period than in the shorter period, because in the longer period there will be time to put into effect improvements that may result in increasing the earnings and in economies in operation which would certainly improve their credit.

Senator CUMMINS. Assuming that your proposition for unified control—and there can not be any positive unified control without Government operation—but assuming that it is sound—and I am not impeaching it at this time—the only reason that could lead the railroad companies into cooperation with the Director General would be that they thought they could sell their properties at the end of the five-year period for a great deal more than they could sell them for now and under more favorable conditions.

Director General McADOO. They might think that; I can not tell. But one thing is certain: Whatever they may think, or whatever may be the outcome eventually, it is plainly our duty to do what is best in the public interest, and if the five-year extension is the best thing, we ought to take that course without fear. There is no solution of the railroad problem which has been or can be discussed which does not present tremendous difficulties. No man can foresee the consequences of the adoption of any one of them. I think that, since we have already had a test of the railroads under war conditions, a continuation of the test for a reasonable length of time—say five years, as proposed—presents fewer difficulties than anything else I can think of.

Senator CUMMINS. And that brings me to the real point that has been raised here, which, I take it, is very important. In the 10 months ending with October of 1918 the net loss in the operation of the class 1 roads, as compared with the same months of 1917, has been \$905,000,000, has it not?

Director General McADOO. No; you are entirely mistaken. There has been no such loss.

Senator CUMMINS. Let us see. I have before me a summary issued by the Interstate Commerce Commission——

Director General McADOO (interposing). The loss is estimated by the Railroad Administration statistician at \$136,000,000 for the year, and this is accounted for in large wage increases, high cost of materials and supplies, and everything of that kind.

Senator CUMMINS. I am not saying that it was not necessarily so, but I am simply trying to get the facts on the record. I have a table here which is prepared by the Bureau of Statistics of the Interstate Commerce Commission. It is headed, "Summary of monthly reports of large roads, for the 10 months ended with October, 1918." It covers the operations of 232,000 miles, which embraces, as I understand it, the class 1 roads, substantially.

Now, during the first 10 months of this year, as shown by this statement, the operating revenue of these roads was \$4,032,234,144. For the same months in 1917 the operating revenue was \$3,355,328,079, so that the roads took in, by way of revenue, practically \$740,000,000 more—

Senator KELLOGG. The exact figures are \$676,000,000.

Senator CUMMINS. Well, whatever it is. Now, for the same roads the expenses of maintenance and operation for the 10 months of this year were \$3,247,085,929; and for the 10 months of last year—I mean of 1917—it was \$2,344,206,000; so that the net revenue from railway operation this year—I mean, in 1918—during those 10 months was \$785,148,215, while during the 10 months of 1917, it was \$1,011,121,155. In round numbers, while the revenue was \$700,-000,000 more, the net revenue was \$228,000,000 less. I assume, therefore, that a comparative statement would about confirm what I said a few minutes ago.

Director General McADOO. No, Senator, you are mistaken. You do not tell us there how much transportation was furnished for the money in each year. In other words, the volume of transportation supplied in each case.

Senator CUMMINS. You are quite right about that.

Director General McADOO. And, in addition to that, Senator, you are comparing a time when the railroads were operating under war conditions, when, of course, you could not always be governed by principles of economy; and, again, when we took them over, they were in the most paralyzed condition they had ever been in, and we had to clear that situation up at very great cost; and, in addition to that, there were difficulties in getting skilled labor, and the green labor which had to be substituted for skilled labor that had gone into the Army, and many other difficulties which I might mention. But, after all, it is a question of the volume of transportation provided under given circumstances, and the amount of money it costs, that must be the test.

You are also comparing our war period, when we took over almost a helplessly broken-down machine, with the best period in railroad history.

And may I just say one other thing, in connection with that answer?

Senator CUMMINS. Surely.

Director General McADOO. We also had, as you know, the worst winter in the history of the country (at least within my lifetime), which added to the intensity of the demands upon transportation for war purposes, and, of course, made the cost of transportation very much greater than it would have been in normal times. In addition to all that, considering the returns for the first 10 months, you must bear in mind that the increases in wages and the increased cost of materials and supplies of all kinds was effective for the entire 10 months, whereas the increase in rates was in effect for only four months.

Senator CUMMINS. Yes, I have those things in mind, and I will not overlook them as I go along; but I want to say that the conclusions that might be drawn from the figures that I gave you must be qualified by reference to the volume of traffic, and I have no statistics with regard to the volume of traffic in the first 10 months of 1918 as compared with the same months of 1917.

Director General McADOO. Just as soon as the returns are completed I shall submit a very full statement as to all of them; and I may say further that, as far as we have complete statistics that bear upon the first 10 months, I shall be glad to supply them.

Senator CUMMINS. I want it understood, too, that I think all of the members of the committee are conscious of the difficulties under which the Railroad Administration was carried on, especially during last winter; but I am trying to find, if I can, where we are eventually to emerge, if these conditions continue. Now, you have said that the increase in rates did not take effect until about the 1st of July, I believe, whereas the increase in compensation took effect on the 1st of January.

Director General McADOO. As well as increases in wages and cost of supplies of all kinds.

Senator CUMMINS. Yes; but now I want to bring your attention to the period in which these things may be assumed to have been smoothed out just as fully as they could be under war conditions, and I invite your notice to the same comparison for the month of October, 1918. A table furnished from the same authority, and of the same character, covering only the month of October, discloses this situation: That the operating revenue of these class 1 roads for that month was \$489,332,259. For the same month in 1917 it was \$382,544,311; so that the roads took in during 1918, in the month of October, \$107,000,000 more than they took in during the same month in 1917; but I find that the net revenues from railway operation—I am not including taxes or anything of that kind—the net revenue from railway operations for the month of October, 1918, was \$105,959,693, whereas the net revenue for the month of October, 1917, was \$122,487,092—a difference of nearly or about \$16,000,000 for the month; that is, the net revenue was \$16,000,000 less for October, although the gross revenue was \$107,000,000 more.

Director General McADOO. Of course, Senator, those comparisons are wholly misleading, because, unless you know the amount of transportation produced in each instance, you have no accurate basis of comparison.

Senator CUMMINS. Yes; I was hoping you might supply that.

Director General McADOO. We shall be glad to supply it. If you want to get an accurate comparison, then you have got to put the railroad operations of 1917 on the same basis as 1918. The same rates and wage scale—

Senator CUMMINS (interposing). Oh, no.

Director General McADOO. Or else you have got to put it upon the basis of the transportation produced, and take into consideration, in order to base any judgment on the merits of either case, not only the war period, but also that a great deal of the back wage adjustments—these settlements that are proceeding throughout the year—it also incorporated in the October statement. There is another thing: we had a very serious plague in October, in which we lost by death thousands of railroad men, and thousands of others were sick. I think in New England alone 18,000 were sick at one time. Now, all of those things added to the cost of operation; and you are comparing these operating results under strikingly adverse conditions or dissimilar conditions, and, therefore, I say that I do not think they apply as much as you seem to think they do.

Senator CUMMINS. Oh, no. Understand that, so far as I individually am concerned, I am not trying to prove that the administration has been inefficient. I am trying to find out where we are drifting and how we will eventually escape bankruptcy.

Director General McADOO. I understand you perfectly, Senator, and I am trying to explain why we will not go into bankruptcy.

Senator CUMMINS. Then, do you propose, in order to meet this situation, that there shall be another increase in rates?

Director General McADOO. Not at all Senator. On precisely the same basis as now exists as to rates, wages, and cost of materials and operation, I think we should have a surplus of \$100,000,000 for 1919.

Senator CUMMINS. How could that be, when in the month of October one finds that in war times—

Director General McADOO (interposing). I am speaking of peace times.

Senator CUMMINS (continuing). That for October the net operating income did not meet the guaranty of the Government to the railroads?

Director General McADOO. The earnings for 1 month are not an index, necessarily, for the whole 12 months. I am speaking of the 12-month period for 1919. I think you will find, on the same basis of existing wages and working conditions and with the existing rates, that you would have a surplus of \$100,000,000 in 1919, over and above the Government's guaranty, I mean.

Senator CUMMINS. You mean upon the same traffic?

Director General McADOO. Yes.

Senator CUMMINS. And on the same rates?

Director General McADOO. Yes; on the same rates. Let me give you just this further statement: In 1918 the railroads in this country were without any reserves of motive power at all. They went into the winter with nothing in the way of motor-power reserves. They did not have sufficient new locomotives; I mean they were not delivered, and it was necessary, therefore, to repair the old locomotives. Even if the new locomotives which had been ordered could have been delivered, I had to yield to Gen. Pershing's demands for those locomotives to handle our troops in France; so I deferred the orders of the American railways for new locomotives to the needs of our forces abroad, in order that our troops in France might have them to get up to the German front. Now, the only possible substitute, under those circumstances, was to repair the existing locomotives, and even that meant with insufficient man power and with insufficient shop facilities, working hundreds of thousands of hours overtime in order that we might make the old locomotives suitable as substitutes for the new ones we were sending to Pershing; and that cost us time and a half for overtime, and all of those hours are included in that cost of operation for 1918, when we were operating under most extraordinary and anomalous conditions. Now, we will not have those things to contend with the coming year.

As soon as the armistice was signed I restored the eight-hour day, and we have kept up with our locomotive repairs and now have nearly 1,100 of them in reserve with which to go into the winter, as against none last year. I mention those things in order that you may see how operating costs differed in the past. If you will take the month of September, however, instead of the month of October, you will see a very handsome increase in earnings, but that, again,

is not indicative of the whole year. As a matter of fact, the earnings for the year under Federal control are fluctuating between very wide extremes, month by month, because many of the wage increases which have been put into effect could not be paid out immediately, and it takes a long time to check them up.

Senator CUMMINS. Have you similar statements to the one I have referred to for each month in the year?

Director General McADOO. Yes. What I should like to do is this: Of course it is impossible for me to follow the details of these operating statistics; I have many other things to attend to, and I can only keep track of them in a general way; but I should like to have some one representing the Railroad Administration, and who is familiar with all these statistics, come here and give you full information about it in detail later.

Senator KELLOGG. If you have it, will you please file with the committee the amount of the wage settlements made and paid in June, July, August, September, and October.

Director General McADOO. I will if they have been completed. I think we can do that.

The CHAIRMAN. Do you mean that to include the retroactive feature?

Senator KELLOGG. I am talking about the retroactive feature entirely.

The CHAIRMAN. You say you are talking about retroactive entirely?

Senator KELLOGG. Yes.

Senator CUMMINS. Having gone over this briefly, we come to the question that I have in mind, which is of a rather more general character. Do you think, or do you have any doubt that Congress can, during this year, agree and establish a permanent policy for the relation of the Government to the railroad properties of the country?

Director General McADOO. Senator, I would think it is very difficult. I do not know, of course, what Congress may do. You ask if I doubt it. I am frank to say I do.

Senator CUMMINS. Assuming now we should do what we ought to do—continue this hearing and investigation and consideration until it is finished, not stopping with the 4th of March—is there any reasonable doubt that Congress can not deal with the problem in some fashion before the year will have gone?

Director General McADOO. I can not answer that, perhaps as well as you can, but I doubt it.

Senator CUMMINS. I think it can. I have no hesitation in saying that, in my opinion, it can, but whether it will or not, that is a different matter.

Director General McADOO. I do not know any subject about which there is such an infinite variety of opinion as the railroad question. It is going to be very difficult to reconcile these conflicting views and to secure a permanent solution in a short time.

Senator CUMMINS. In view of the agitation that has been going on for years, and the general knowledge of the people concerning the subject, it would seem to me that we ought to be able to compose them. Our action might not be wise, but we should be able to compose them within a year; and do you not think that it would

be a great deal better for the people of this country to speedily reach a conclusion that will establish a permanent status?

Director General McADOO. Of course, it is highly desirable to get a permanent solution of this problem as soon as possible. My profound conviction is that you can not get a permanent solution now, even if possible, that will be as satisfactory as the one you will get after a try-out over a longer period of time. I think the test under peace conditions would be more helpful than anything, in solving this problem rightly. No one can tell what sort of a plan will come out of the attempt to find a solution now. Various alternatives are proposed. One of them is straight Government ownership. That is the line of least resistance. It is the simplest method of dealing with it. My tendencies have been against that solution. My inclination has been to some form of private ownership—the preservation of private ownership—but under such strong and effective Federal control that we should get the benefit of private initiative as far as that is possible under a dual system of that kind, and yet secure, for the American people, the advantages of a large measure of unified operation of the railroads under strong Government control. The States, of course, will have to yield some of their authority in order to reach a correct solution of this vexed problem, a solution which is genuinely in the interest of all the people of the country.

As opposed to the Government ownership plan, several suggestions are made as to private ownership under a strong federalized control. One of them is that the country should be divided into regions, somewhat analogously to the Federal Reserve system, and that all railroads in that region should be welded into one corporation. Under that plan, there would be a monopoly of transportation within that region, with private ownership under Federal control and possibly with Federal participation in the surplus earnings over a certain return to the owners on their investment. That plan presupposes a valuation of all the individual railroad properties, and exercise of the Government's power of eminent domain would undoubtedly be necessary to bring it about. I mention this power of eminent domain as one of a few of the perplexities incident to the adoption of the regional plan. If that plan were carried out, however, and the seven regions we now have are maintained as such, you would have seven regional railroad monopolies operating under governmental control and direction.

On the other hand, it has been suggested that a better solution would be to force a consolidation of the weak and strong corporations, within practicable limits, and keep them in competition each with other, under strong federalized direction and control. That, again, would involve all the difficulties in the procedure I have outlined generally as applicable to the case of the regional monopoly. I am frank to say that I do not know which of those three plans would be the best one to adopt now.

Let us assume, however, for the sake of discussion, that we should adopt, as a permanent solution, the plan for competitive corporations, under strong Federal control. I will illustrate it by the southern region, which embraces the territory south of the Potomac and east of the Mississippi rivers. In the southern region there are practically three systems of railroads—the Southern, which is very

strong and reaches the largest part of that territory; the Atlantic Coast Line; and Louisville & Nashville, which compose practically one system, and which are also very strong. Then there is the Seaboard Air Line, which is highly competitive with the Atlantic Coast Line, and which is a much weaker system. I am simply describing one of the plans which have been suggested to me. I am not committed to it myself.

Now, suppose it is attempted to consolidate the Seaboard Air Line, the Atlantic Coast Line, and the Louisville & Nashville into one strong system, and set it in competition with the Southern, making such readjustments and distribution of smaller lines so as to divide them in the most intelligent way between the two big railroad systems in the district. We should then have two big systems operating in the southeastern territory under Federal direction and control and with Federal participation in the surplus profits, after the stockholders had received a stipulated dividend. That plan implies, of course, a readjustment of these various companies and a redistribution among their stockholders upon some predetermined basis. No such basis can be found until we know first what these properties can earn under unified control during peace time and what is the reasonable value of the properties so that the new issues of stocks could be made accordingly, and the most intelligent rearrangement of the railroad maps in the southeastern region could be determined. With the light before me, I do not see how we can get any satisfactory solution of the problem even if this principle should be adopted, until we have had a more thorough test of unified control under Federal direction in peace time. I think that such a test would produce an immense amount of information that would be invaluable in solving this perplexing problem.

Senator CUMMINS. I have not attempted to enter upon a discussion of the proper solution of this problem. It is a very delicate and difficult question. Everybody will admit that. The purpose of my inquiry is to ascertain whether it is not reasonably sure that we can reach some solution during the present year. Now, if you, with your experience and your knowledge of the reasons you have given for unified control, which are graphic and very instructive, can suggest a plan, do you not think if we would sit down that, within six months, you or we could reach a conclusion with regard to the best way of dealing with the question?

Director General McADOO. If you could leave it to me, I could do it in six months. I do not know whether you could get the minds of a majority of some six hundred men to meet. That is the difficulty with Congress.

Senator CUMMINS. But there would be a majority one way or the other for some solution, and what you can do others can do if they give the subject the same careful study which you have given it.

Director General McADOO. Senator, of course I do not know whether the Congress could reach a solution in a short time as you seem to believe. I doubt it because the problem is too complicated. I have mentioned several plans in order to give you a brief suggestion of their complexity, merely to indicate the difficulties which stand in the way of any meeting of the minds of any large body of men like the Congress on this subject; there is such a great variety of opinion. Of course, one man can decide a thing quicker than a

dozen, because in the latter case you have to bring the minds of the dozen men together. The country will not permit any one man to settle it. You gentlemen of the Congress must settle it.

Senator CUMMINS. But you have delineated very clearly the advantages of unification. Nothing could happen in the future that would deepen your conviction in favor of unification?

Director General McADOO. No; it is the form of unification. There is the problem. That is where your difficulties will come in. I think we will all agree that the unification of the railroads is immensely to the advantage of the public. But the question arises as to how you will assert it permanently.

Senator CUMMINS. Inasmuch as the experience of five years would tend only, from your standpoint, to establish the advantages of unification, I do not see how you can reasonably assert that we need five years in order to study that question.

Director General McADOO. Senator, you evidently attach great importance to the earnings of the railroads, even as made under war conditions. You have been analyzing these earnings evidently with the idea that they have a bearing upon the solution of the problem. I think that earnings under war conditions are an absolutely faulty basis upon which to begin. Earnings under peace conditions would have great value. That is the reason I want the test. There are many more things we must learn about the railroads before we get a right solution of the problem and these we could not learn during war time.

Senator CUMMINS. You could add nothing to the demonstration in favor of unification; that is complete, is it not?

Director General McADOO. Yes, but it is the form of unification and control that we must decide upon.

Senator CUMMINS. The only question is whether that unification can be carried on properly; I mean whether your expenses are greater than your income, and inasmuch as both expenses and income are in the control of the Government, it would seem to me that part of the problem could be solved without much difficulty.

Director General McADOO. Of course, Senator, you gentlemen here know more about the possibilities of legislation than I do. I can not make any prophecy about that which will shed any light as to its possibilities, but I do feel that a further test of operation under peace conditions would be of great value, and that is the reason I suggested it. I may be wrong about it. I am not so dogmatic in any views I hold that I think them conclusive.

Senator CUMMINS. What effect do you think it would have upon the railroads if you were to dismiss them from Government operation on the 1st of March?

Director General McADOO. They would be in a great deal better condition and in a better situation than they were on the 1st of March, 1917—infinitely better.

Senator CUMMINS. Physically or financially?

Director General McADOO. Physically and financially.

Senator GORE. You mean 1918, do you not?

Director General McADOO. I mean 1917 or 1918—in the first place, their properties have been kept up and their motive power and equipment are in much better condition, and they have not been scrambled. There is not a single railroad in the United States

today, the integrity of whose property has not been preserved. While the wages of labor and working conditions have been properly improved and defined, they are now enjoying rates sufficient to meet those wage increases and to maintain those conditions, and I think adequate rates ought to be preserved. We put wages and rates on a fair basis I think. In addition to that, they will have had the benefit of a great deal of financing done by the Federal Government for their account. Of course, the terms of the settlement of these debts that must follow, must be eased. The roads are not hurt by having the Federal Government as a creditor for the equipment, etc., that has been supplied.

Senator CUMMINS. Well, let us see about that. Let us analyze that a moment. As far as wages are concerned, it is not probable that they would be decreased.

Director General McAdoo. I should think they would not be.

Senator CUMMINS. Or lessened?

Director General McAdoo. I should think they would not be. I think they should not be.

Senator CUMMINS. They could not be until at least the standard of living had been very materially changed, I assume.

Senator GORE. Or the cost of living reduced.

Senator CUMMINS. The instant you turn these railroads back to their present owners, in the absence of further legislation, the whole interference on the part of the Federal Government with the laws of the several States would cease and those laws would resume their operation, and the lawful orders of the various State commissions, I assume, would be restored. What effect would that have upon the railroads and their revenue?

Director General McAdoo. It depends on what the order may be. If it is an order reducing rates, Senator, why, they may, of course, reduce the railroad revenues below the cost of operation.

Senator CUMMINS. I mean suppose you were to relinquish the railroads now, or on the 1st of March, without even mentioning the matter of rates, your Order No. 28 would no longer govern the situation, would it?

Director General McAdoo. You mean about rates?

Senator CUMMINS. About rates.

Director General McAdoo. No; I think General Order No. 28 would continue to govern. The present rate structure would still stand. It is a question whether or not the State commissions and the Interstate Commerce Commission would reduce the rates by orderly procedure.

Senator CUMMINS. Do you think that as a matter of law that a statute which fixes passenger rates within a certain State has been permanently repealed by an order of the Director General fixing passenger rates?

Director General McAdoo. These rates would stand until they are altered by the lawful action of the commissions in the various States in which they have control of any part of the rate structure.

Senator CUMMINS. In some of the States the passenger rates and freight rates were established by law and statute.

Director General McAdoo. I have not gone into the legal aspects of that question, Senator. I do not know, as a matter of fact, how far

those statutes would affect the revenues of the railroads within the States, even if the State statutes were immediately practicable upon the return of the roads to private ownership. It may be that the laws you speak of would not have a very serious effect upon the entire railroad revenues.

Senator CUMMINS. I do not know how serious it would be, but it would seem to me if the local rates in the various States, which you have very greatly increased, were to be restored to their former point, the effect of those local rates upon the State rates would be exceedingly intimate—

Director General McAdoo. Senator, do you believe—

Senator CUMMINS. And you would have very great confusion, at least, in that situation.

Director General McAdoo. Do you believe, Senator, in view of the fact it has been necessary to give a living wage to labor, decent working conditions, which have increased the costs of railroad operation; in view of the fact that the cost of materials and supplies have increased so much, that increases of rates—compensatory increases of rates—which have been unavoidable and inevitable, and have been granted, that State commissions would disregard the facts and reduce the rates below the point that would enable the corporations to earn sufficient money to pay those wages and increased cost of supplies?

Senator CUMMINS. So far as I am concerned, I am entirely in sympathy with the increase in the wages. The wages having been increased the rates are bound to increase in accordance with the increase in costs, if we are to have a livable set of laws. I am thinking of the situation over which we have no authority by which to adjust these matters through national legislation, of the proposal to turn the roads back. I think that would be little less than a crime, myself.

Director General McAdoo. If the State laws of which you speak are exclusive of the Federal authority, how would the situation of which you speak be saved if the roads were turned back later to private control? If you are correct, the Federal authority is insufficient to protect the earnings of the carriers, whether they are under private or Federal control?

Senator CUMMINS. I am expressing an opinion about turning them back to private control, and I am somewhat terrified with the suggestion that we leave them just as they are, with the standard of compensation as it is, the standard of cost of supplies as it is, and the standard of rates as it is—but if the roads were turned back without any period in which to get ready that it would create the most deplorable confusion and bring about the most disastrous results.

Director General McAdoo. I confess I can not see any adequate ground for the apprehension. I always recall the interesting fact that in the six years' experience I had as Secretary of the Treasury, numerous predictions of panics were made to me from time to time, and I discovered that all these apprehensions of disaster were ill-founded. I say for myself that these fears of disasters do not make much impression on me. I do not believe the railroads would face any such disasters as you suggest, unless all the State commissions, disregarding every element of justice in the situation, should reduce rates below a compensatory basis, and the Interstate Commerce

Commission, in addition, should do the same thing with reference to interstate rates.

Senator CUMMINS. But you do not give them any opportunity. If you turn the railroads back within a few months, you do not give the States any opportunity to readjust themselves.

Director General McADOO. The States do not have to readjust themselves unless they get busy and bring the rates down.

Senator CUMMINS. In many States, it is a matter of statute, and in all States it is a matter of State regulation, which I assume would be operative from the moment they were turned back, unless there was additional legislation.

Director General McADOO. I do not see how you can legislate against that, if you are going to turn the railroads back. I do not see how the Federal Congress can affect the State situation, if it is exclusive of Federal authority. I do not believe the State authority is exclusive of the Federal authority in the matters to which you refer.

Senator KELLOGG. You do not deny the power of Congress to do it?

Director General McADOO. I say if the Senator's premises are correct with respect to intrastate rates and State control over certain matters, then the power of the States could be reasserted and the Federal Government would be powerless. If I understand Senator Cummins correctly, I do not agree with his views as to the power of the States against the Federal power.

Senator CUMMINS. I do not want to think I am a prophet of evil, but I am simply looking forward just as you did, in 1917, in which year you believed—and so did I—that if the railroads were not taken possession of by the Government, dire disaster would follow. Now, it would have followed, would it not?

Director General McADOO. I think that was evident at that time.

Senator CUMMINS. I am inclined to think, if your plan is pursued, that the same disaster will ensue now, unless you give Congress a fair opportunity—

Director General McADOO. My plan is to—

Senator CUMMINS. To readjust the relations between the Government and the railroads.

Director General McADOO. My plan is to stabilize and preserve the integrity of the situation through the five-year extension of Federal control, and especially to protect the situation in this formative period in the world's history, and to make things safe for every interest concerned. I mean the people at large as well as the employees and the owners of the properties. We shall then have plenty of time in which to work out this railroad problem. We do not have to legislate hastily to-morrow, nor within 12 months, unless we want to. The course I propose is, to my mind, the course of prudence, safety, and wisdom. The other course, to attempt hasty legislation without an adequate test under peace conditions, is to invite possible and unnecessary difficulties. I can not see how a test period can prejudice any American interest. It is to my mind imperatively in the public's interest that it should be done. So, as it appears to me, Senator, the five-year extension is the safe, prudent, and wise thing to do.

Senator CUMMINS. While I may not disagree with you about that, because I think it can be done in a much shorter time, what does alarm me—and it is real alarming—is the suggestion that unless we

do grant an extension of five years, these roads immediately are to be returned to their owners just without any preparation at all.

Director General McADOO. I have not heard that suggestion, Senator. The only suggestion—

Senator CUMMINS. I understood that was your belief.

Director General McADOO. No, sir; my belief and my suggestion is this: That as promptly as possible the roads should be returned to private ownership, unless the time is extended. I think that is desirable, in fact necessary, because I do not believe that they can be operated successfully during the 21 months period provided for in the present statute.

Senator CUMMINS. Suppose Congress does not adopt that suggestion of extending the Government's operation for five years. Do you think that the roads ought to be turned back before a reasonable time—say a year—is given Congress to act in whatever manner it may see fit?

Director General McADOO. I feel, Senator, that the difficulties of operation under the present conditions are so great, that the inability to secure the necessary cooperation of many interests which are antagonistic, will cause these difficulties to increase, and that the least difficult thing to do is to turn the roads back immediately, unless there is an extension of time. I am rapidly shedding the robes of railroad authority, and my successor will have to deal with those questions. I do not know what his views will be. If I were to remain here, and my views counted for anything, and there was no extension, I think, just as promptly as possible, having due regard to all interests, the roads should be turned back.

Senator CUMMINS. Suppose there was a reasonable probability that within the year Congress would be able to make some disposition of the question, you would not feel that it was your duty to turn them back inside of a year, would you?

Director General McADOO. Well, I think it is a matter of discretion. I think judgment would have to be exercised by the President, who is responsible for the administration of the law, and that he would have to make up his mind whether, in the circumstances confronting him at the time he must act, it would be in the public interest to keep the roads longer. I think he would have to determine that.

Senator CUMMINS. You mentioned some difficulties in continuing the Federal control under the laws as they are now. You said, however, that you believe the year 1919 would yield, over the guaranteed return, a surplus of more than a hundred million dollars. You have still part of your revolving fund, have you not? It has not all been spent, and a good deal that has been spent could probably be capitalized by the railroad companies; what are these difficulties that are ahead of you in the way of financing the railroads?

Director General McADOO. In the way of what?

Senator CUMMINS. In the way of financing the railroads; that is, of giving them or helping them to the money that is necessary to make additions and betterments and improvements?

Director General McADOO. Well, as it is now, they are challenging many of the things we are suggesting that they cooperate with us in. Take, for instance, locomotives: Let me give you an idea. You must have cooperation to operate these railroads during this brief period. The corporate cooperation is of value. I do not think we can get it.

I do not think they are friendly to Federal control. They apparently think that their interest is not to cooperate with Federal control. That, of course, is an impediment in the way of making improvements and providing equipment. The Government should have corporate cooperation in doing these things; otherwise the Government must make the expenditures and then contest the question with the corporations afterwards in the courts. I do not think that is a wise thing to do. It tends to keep the whole business in a state of foment.

Now, on the other hand, let us take the State commissions. They had a meeting in Washington recently, and practically made a declaration against recognizing Federal authority over interstate rates. They propose to contest this point. During the war period they did not assert any such position. They were willing to defer to the war situation. Now they have served notice that they will attempt to reassert the powers you have spoken of. I do not know to what extent that will interfere with Government control. It will not make it any easier, at any rate.

Senator KELLOGG. How will the five years period affect that? Do you think they would recede if the five-year control went into effect?

Director General McADOO. No; not altogether, but resistance over a long period would be almost hopeless. With five-year control you would be in a better position to work out necessary improvements and take your chances of forcing corporate cooperation than if you had only 21 months. A great many grade changes, for instance, should be made that involve capital expenditures. They would be very helpful in bringing about a reduction in the cost of transportation, and, consequently, a lowering of the rates themselves. There are realignments of tracks, etc., that should be made.

Senator CUMMINS. But you can compel them to make betterments, etc., can you not?

Director General McADOO. We can, but we would have to finance all the cost and would take our chances of establishing the corporate liability in a legal proceeding. I do not see any use of getting involved and enmeshed needlessly in an endless litigation of that character. If we can not have corporate cooperation in a short test period, like 21 months, the railroads should go back promptly to their owners, because you would have less confusion if you turned them back now than if you waited 21 months.

Senator CUMMINS. Such is the variety of human judgment that the very reasons you give for believing there will be an increase in cooperation leads me to believe that there will be less and less.

Director General McADOO. There, again, Senator, that is just a difference of opinion, and it is those differences of opinion that lead me to believe there will be greater difficulties in the way of a permanent solution at this time than in securing a longer test period. To give you an illustration of some of the things we are contending with: In the year 1918, in the budgets submitted by the Baltimore & Ohio Railroad, they asked for 150 locomotives. We assigned to them 116. They have objected to the types—which were changed by the way to suit them—and now they make a general objection. They do not want the locomotives at all. Let us take the Central Railroad of New Jersey. They asked for 35 locomotives. That is a strong corporation, and has good credit. There is no trouble about their finances. We assigned 35 locomotives; now they claim that they

are not needed and that they can not finance them, although the amount involved is comparatively small. Take the Chesapeake & Ohio; they asked for 35 locomotives. We gave them what they wanted, and now they object to their being furnished any locomotives during Federal control. Take the Chicago & Alton. They wanted 10 locomotives. We gave them 10, and they would now like to reduce the 10 because of the armistice. They want to leave the Federal Government to hold the bag. The Chicago & Eastern Illinois asked for 20 locomotives. We furnished them 20, and they now say they are unable to finance them. Of course they could finance them in some way.

The Chicago & Great Western asked for 15, and we gave them 15. Now they say they do not need them. There is no objection to the locomotives; they merely say they do not need them after having said they wanted them.

Senator UNDERWOOD. The real issue is they do not want to take the locomotives at the war prices at which they were purchased; they believe the prices will come down.

Director General McADOO. But they would have been obliged to buy them at high prices if the Government had not taken them under control. At the time the railroad asked us for new locomotives the prices were high.

Senator UNDERWOOD. I know, but the real issue is that the locomotives could probably be purchased cheaper now than the Government bought them for.

Director General McADOO. Doubtless, but that does not justify repudiation of their orders.

Senator CUMMINS. Is it your opinion that the railroads need them?

Director General McADOO. It is—they asked for them.

Senator CUMMINS. Yes, but they asked for more than you gave them.

Director General McADOO. I did not examine each particular case myself, but the Division of Operations went through them with great care as well as did Judge Lovett.

Senator CUMMINS. The more you continue that relationship, it seems to me the more complicated it will be.

Director General McADOO. I do not think so. If we had them for five years, the attitude would be very different. They could not obstruct successfully over so long a period. Of course, the properties must be preserved. The Government has the right to take the cost of these things out of their surplus earnings over and above their fixed charges. My policy has been not to do that until absolutely necessary. We have tried to help the corporations, but if, in these circumstances, they are not willing to cooperate, what can we expect from them on a short tenure with improvements of all kinds that should be made? I think they would be interposing objections of all kinds. Why continue such a condition as that which will involve the Government deeper?

Senator CUMMINS. That leads me to another question: Suppose the deficit this year, as compared with your guaranty, is one hundred and fifty, or one hundred and seventy-five million dollars; what is the fair thing to do? Should that deficit be met out of these rates from shippers or should it be met out of the Treasury?

Director General McADOO. I think the deficit this year ought to be paid out of the revolving fund as an essential part of the war cost. That was what the revolving fund was created for. I think the rate structure should be preserved at a sufficiently reasonable point to enable the Government, if it operates the railroads, to earn the year the standard guaranteed return and a reasonable surplus for general usage.

Senator CUMMINS. So, if your view of it is correct, and your prediction is well founded, the rates could be reduced next year quite a great deal?

Director General McADOO. My feeling is that the cost of materials and supplies is likely to decline. Take coal, particularly. Our fuel bill for 1918, for 10 months, was \$140,000,000 more than for the same period in 1917. I do not believe coal is going to remain at any such high price as that. I think that the cost of cross ties and lumber and steel and all of those things will be reduced to a more reasonable basis. The railroads will get the benefit of those things. I think there are further economies in operation in peace time which were not possible under war conditions. The excessive pressure of necessities for war purposes will be relieved. I think we will be able to effect very large economies in 1919 under the unified plan which I think would not be possible under diversified control, and I think that at the end of the year 1919 we will be able to reduce the rates. I have a very strong feeling that rates can be reduced, but to what extent I do not now know.

I think you will find, as you go along now, that the comparative statements of earnings of the railroads—operating revenue—will show an improvement every month of this year over last year, and that January, 1919, unless something unforeseen occurs, will show a great improvement over January, 1918, and that earnings will reflect great improvement each month as we go along. So, I am in hopes that reductions in rates will result at the end of 1919.

The CHAIRMAN. Mr. McAdoo, Senator Cummins's argument or his questions have revealed the fact that he is apprehensive if you turn the railroads back, on account of increased wages or tariffs, that certain statutes in certain States would be operative instantaneously and therefore tend to confusion and maybe disaster to the transportation companies of this country. Do you think, unless there is a five-year extension, that to return them at once would be to the best interests of the public rather than waiting until the 21 months after peace shall have been declared has elapsed, as he contends, to give Congress time to study the problem from the facts they have now and reach such conclusions as they can reach?

Director General McADOO. If I catch your question correctly—

The CHAIRMAN. Of the two, which do you think would serve the public's interest better?

Director General McADOO. I have said, Senator, and I repeat it, that it is my deliberate judgment that in the circumstances which I know will have to face Federal control for 21 months, that it will be better to turn the railroads back to private ownership as promptly as possible. In dealing with that situation we should take into consideration the conditions at the time and make such reasonable adjustments with the railroads when they are surrendered as will ease the process. That is my judgment.

The CHAIRMAN. You think that the several States would have to use such discretion as in their judgment would be necessary to maintain the public's interest when you shall have turned them back?

Director General McADOO. I think this, that where discretion is in the State commission, no State commission is going to disregard the facts of the situation and deliberately reduce rates to a point where the railroads can not earn the cost of operation and a fair return.

Senator WATSON. I understood you to say that the State commissions had made a protest against the Federal rates.

Director General McADOO. They protested against not being able to pass on intrastate rates. That was done by resolution, as I understand it.

Senator WATSON. Did they protest against the rates themselves?

Director General McADOO. I do not think so—not in this resolution.

The CHAIRMAN. They just protested against not participating in the making of the intrastate rates?

Director General McADOO. They declared their right to participate in making intrastate rates.

Senator CUMMINS. Do you think there is any difference in our power to deal with the railroads in times of peace as compared with war conditions?

Director General McADOO. I have not analyzed that sufficiently to express an opinion. I am inclined to think, without having examined it, that under the Interstate Commerce clause of the Constitution, we have adequate power to deal with that question.

Senator POMERENE. I have no doubt in my mind that Congress has the right to take over these railroads as a war power, and I have no doubt in my mind but what we have the right to take the titles to these railroads, if we wish, under the program of Government ownership. But has your legal department investigated the question to ascertain whether or not we have the right to take the railroads and keep them for five years, until we make up our minds as to what to do with them?

Director General McADOO. I think if we have the right to keep them for 21 months after the signing of peace, we have the right to keep them longer. Do you question the right to keep them 21 months?

Senator POMERENE. I am not perfectly clear whether we have a right to keep them 21 months after the war has been concluded or not; but as we have given that power, whether legally or not, it is not necessary to decide, but clearly, if we contemplate increasing that time from 21 to 60 months, certainly that is extending the control for many, many months beyond the point where there is any necessity for it, looking at it from the standpoint of a war problem.

Director General McADOO. I have not examined the legal question myself with sufficient care to express an opinion—but it is perfectly clear to my mind that if Congress has the power to hold them for 21 months after the signing of peace, they would have the right to hold them 60 months.

Senator POMERENE. Do you think we have the right to hold them 10 years after the signing of peace?

Director General McADOO. I think so.

Senator POMERENE. Or for 99 years?

Director General McADOO. Yes; I think so.

Senator POMERENE. Do you mean without paying for them?

Director General McADOO. No, of course not; we should have to compensate them. Provision is made for compensation.

Senator POMERENE. By way of rental or in payment for them?

Director General McADOO. Either by rental, if you prescribe that as the exclusive remedy or by resort to the courts, provision for which you have made in the existing law. The power of condemnation or the power of eminent domain is frequently asserted and possession is taken before compensation is actually paid.

Senator POMERENE. We have the power of condemnation when we want to take title to the property, but you have to pay the compensation first before you can do it, except during time of war, as I recall it.

Senator GORE. The provision for compensation has to be put in the act.

Senator POMERENE. I think that may be so.

Director General McADOO. I think Uncle Sam is security enough. He does not have to give a bond. The effect of this statute would simply be to extend the period, for which they would receive compensation. If the carriers do not agree to that they can take it to the courts.

Senator POMERENE. Have you asked your legal department for an opinion as to our power to take over the railroads and hold them for five years or an indefinite period, until we can make up our minds as to what policy we desire to pursue toward them?

Director General McADOO. I have not.

Senator POMERENE. A year ago, when we were considering legislation, under which the Government took control of the railroads, the railroad presidents and executive managers here said that it was their purpose to keep their organizations so that they would be ready to take back these properties and manage them after Government control had ended. Suppose we were to take over these railroads for a period of 5 years instead of 21 months. Do you think they would be able to keep their different organizations together?

Director General McADOO. I do not see why not, because the organizations that operate the railroads would be the organizations they would naturally take over when they took them back. The corporate organization would be preserved as they are now. They must do that in any case.

Senator POMERENE. A prominent railroad attorney in my State the other day said that with certain railroads, he knew many of the best railroad men were seeking other avenues of employment, because of the uncertainty of this Government control. Is not that a matter that should be considered?

Director General McADOO. That is one of the reasons why I think a 5-year period would be valuable.

Senator POMERENE. Why not set it at 10 years?

Director General McADOO. That is for you gentlemen to decide. I think 5 years is enough. I am merely giving you my opinion.

Senator KELLOGG. Mr. Chairman, I should like to ask a few questions.

The CHAIRMAN. I thought that about 5 o'clock the committee would adjourn until to-morrow morning.

Senator KELLOGG. I do not fully understand your position as to this sudden release of the roads. You have increased the passenger and freight rates from 25 to 50 per cent by an order, have you not? Director General McADOO. Yes.

Senator KELLOGG. That order superseded all rates fixed by the Interstate Commerce Commission and by the State commissions, and by State statutes, did it not?

Director General McADOO. I so understand.

Senator KELLOGG. Now, there are nine States, as I understand it—I may be mistaken—which have statutes fixing permanently a 2-cent passenger rate within the State?

Senator GORE. How many States did you say?

Senator KELLOGG. Nine, I understand. If you turn the roads back, they immediately become subject to those statutes, do they not?

Director General McADOO. Perhaps so, Senator. I have really not considered that legal question.

Senator KELLOGG. Then you would have a local 2-cent-a-mile rate, and, assuming the Federal rates which you fixed were in existence, an interstate 3-cent or $3\frac{1}{4}$ -cent mile rate.

Director General McADOO. I am not so sure of that. I should have to look into that. My feeling about that, Senator, is this, that wherever those rates affect the interstate rate, I think there is a very serious question whether they are exclusive of the Federal authority. Of course that is a legal question.

Senator KELLOGG. Congress has not taken the power over all rates—the intrastate rates—from the States. I mean except in war time.

Director General McADOO. I think it has not only for the war period but for 21 months thereafter.

Senator KELLOGG. I do not think there is any doubt, therefore, that those rates would go back to 2 cents. They would be reduced 50 per cent at once. What chance would the railroads have of maintaining their 3-cent interstate rate as against a locally fixed 2-cent rate—a 2-cent State rate?

Director General McADOO. I do not know what effect that would have on the revenues. It might be a very serious question for some roads.

Senator KELLOGG. Do you not know that the interstate rates would tumble at once to correspond with the State rates?

Director General McADOO. You are speaking of the financial aspect, Senator, assuming that will happen?

Senator KELLOGG. Yes.

Director General McADOO. I do not know about that.

Senator KELLOGG. Take the State of Illinois, for example.

Director General McADOO. I would have to know—

Senator KELLOGG. The State of Illinois has a large local business.

Director General McADOO. Yes.

Senator KELLOGG. And had a 2-cent local rate when it went under Government control?

Director General McADOO. Yes.

Senator KELLOGG. And you raised to $3\frac{1}{4}$ cents when the Pullman was used?

Director General McADOO. Yes.

Senator KELLOGG. That will go back to the 2-cent rate. It will take a great many hundreds of thousands or millions of dollars out of the revenues of the railroads, would it not?

Director General McADOO. I do not know. I would have to examine that from the standpoint of each railroad. There will be some offsets to that in the reduced cost of materials and supplies.

Senator KELLOGG. I am coming to that.

Director General McADOO. I think that that will follow in 1919.

Senator KELLOGG. But the passenger rates all over the country have substantially been raised 50 per cent or more than that, if you take into consideration traveling in Pullman cars.

Director General McADOO. The extra Pullman mileage charge has been taken off.

Senator Kellogg. Well, it is 50 per cent.

Director General McADOO. Yes.

Senator KELLOGG. Now, a great many of the States have statutes fixing freight rates also, have they not?

Director General McADOO. They may have. I have not examined into that.

Senator KELLOGG. Those statutes would become operative immediately if the railroads were turned back?

Director General McADOO. I shall have to reserve my opinion on that. It is a legal question.

Senator KELLOGG. I think you would come to that opinion, if you look into the matter.

Director General McADOO. As to the financial effect, of course I would have to analyze the traffic. I think it might be the case that the stronger roads might not be seriously hurt. In the case of the weaker roads, they might be. Of course it would affect them differently.

Senator KELLOGG. Now, you say that under the Government operation for the first year, the Government has lost \$136,000,000; that that will be the deficit, or about that, as you figure it?

Director General McADOO. Yes.

Senator KELLOGG. You think that can be made up—at least \$100,000,000 of it—in 1919?

Director General McADOO. I have no doubt of it. I think it can all be made up in 1919. Let me say that I hope I made it clear that we got the benefit of only six months of rate increases, whereas there was a 12-months' period of operation under increased wages and costs of supplies and materials.

Senator KELLOGG. Yes.

Director General McADOO. And the \$136,000,000 of deficit in 1918 is the price America paid for an effective transportation system for war purposes. It is my honest judgment that we did not get as much value for any money we spent in the war as we did for that \$136,000,000. In 1919, I believe that, on the present basis of rates and wages, and assuming that conditions are pretty generally the same with respect to traffic and so forth, we shall earn the standard return and probably \$100,000,000 surplus.

Senator KELLOGG. Is there any reason why the Government should not hold the roads for that year and use that money to come out even with?

Director General McADOO. None whatever on that score, if we disregard the other objections.

Senator KELLOGG. Do you not think that would be good business to do that?

Director General McADOO. I am not so sure about that. It depends entirely upon the obstacles in other directions that you must encounter.

Senator KELLOGG. Let us see about that. You are aware, are you not, that if those rates should tumble substantially to their former standard, if the railroads were turned back with the increased operation expenses, increases in wages, increases in material, etc., that the railroads would soon be bankrupt?

Director General McADOO. I do not think so. That does not necessarily follow. Some of them might become bankrupt because some of them are very weak any way. In the next place I do not believe these rates would go back entirely, because I do not believe that the commissions which would deal with them would disregard the items of increased cost. They would be bound to take them into consideration and would do so in dealing with rates.

Senator KELLOGG. The roads were earning, when you took them over, about \$950,000,000 net, were they not?

Director General McADOO. You mean for the year 1917?

Senator KELLOGG. Well, the three-year period—the average.

Mr. HINES. The last year it was a little over \$900,000,000.

Senator KELLOGG. Now the cost of material, the cost of wages, etc., have gone up, and it now costs the railroads seven or eight hundred million dollars more for them, does it not? Do you mean to say that the earnings would go back to the original amount and that they still could pay seven, eight, or nine hundred million dollars more and still have any net?

Director General McADOO. I did not say that.

Senator KELLOGG. If the rates went back to their original standard and the operating costs, the cost of labor and the cost of material—and as to the increase in the wages of labor I do not say that that is unjust at all—but have you any doubt that they would not have any net earnings?

Director General McADOO. Of course, they would have a deficit on that basis. May I ask you a question, Senator?

Senator KELLOGG. Well, I do not know about that. I do not know anything about this subject.

Director General McADOO. Neither do I. We are simply talking about it. What do you think the railroads, under private control, would have earned in the year 1918 if the Government had not operated them?

Senator KELLOGG. I do not know that I know anything about that. If the rates had not been increased, of course, with the increased expenses, they would not have earned anything. Now, Mr. McAdoo, when this bill was considered last year, it was said by you that there should be a reasonable period after the war for legislation for readjustment, and, after hearing everybody, Congress fixed 21 months after the close of the war for legislation for readjustment. Now, why should we not have those 21 months?

Director General McADOO. You fixed a maximum with an express provision in the statute for an earlier relinquishment.

Senator KELLOGG. Are you certain—

Director General McADOO. And may I say also that the reasonable period I argued for was not 21 months. I argued strongly before this

committee against such a short limitation. I strongly argued in fact for no limitation on the period of Federal control.

Senator KELLOGG. But Congress fixed 21 months. Why should they not have 21 months in which to legislate?

Director General McADOO. Congress did not fix 21 months. You fixed 21 months as a maximum and with an express provision for relinquishment within a shorter time. Congress can legislate just as readily with the railroads returned to their owners as if they are kept under Federal control for 21 months.

Senator KELLOGG. No; we simply gave the power to the President, if he deemed advisable.

Director General McADOO. That is what I say. You have an express provision for earlier relinquishment.

Senator KELLOGG. Are the circumstances different so that we do not need a reasonable time after the conclusion of war for legislation?

Director General McADOO. I think the circumstances have changed for the reasons I have stated; that is, it is almost impossible to get any satisfactory test of operation in a 21-month period, and, of course, I do not know whether you can get legislation for permanent solution within that time or not. You gentlemen are the judges of that. After all, my opinion about the five-year period is merely an opinion. I do not state it dogmatically. I am simply giving my opinion for what it is worth.

Senator KELLOGG. You speak about a test period. What you are doing now is operating the railroads by the Government as one system, under a completely unified control.

Director General McADOO. We have not completely unified them. I think further unification can be made with great benefit. We are operating them under one control.

Senator KELLOGG. The Government is operating the railroads to a complete extent, so far as its powers are concerned, as if they owned them.

Director General McADOO. No, it is not doing anything of that sort.

Senator KELLOGG. It is operating them?

Director General McADOO. Yes, but not to the extent as if it owned them.

Senator KELLOGG. You are making a test of operating them under one system though?

Director General McADOO. We are making a test of unified control under decided limitations.

Senator KELLOGG. You are not making the test under private operation, are you?

Director General McADOO. No.

Senator KELLOGG. Or by regional operation?

Director General McADOO. A test of one system under decidedly limited powers.

Senator KELLOGG. You are not making a test of regional operations under a system where the roads are all owned by one corporation and controlled by the Government?

Director General McADOO. No.

Senator KELLOGG. Will you tell me how your test of Government ownership is going to enlighten us as to all these other systems?

Director General McADOO. I think, that the test of operations under peace conditions, when many other reforms and practices can be

put into effect, which were not possible during the war period, will develop a great deal of knowledge which will be valuable as a basis for the solution of this problem. Much importance seems to be attached to the fact that the railroads have earned less, by \$136,000,000, than the standard returns this year. I think that is a matter of no importance, relatively.

Senator KELLOGG. It is not important to me.

Director General McADOO. It was a war expenditure, which has resulted in greater benefit to the country than a like amount expended in any other direction. If the earning power is—as many contend—the true test and the necessary basis for any permanent solution, the earnings under Government control become of such importance that we should have a test under peace conditions for a sufficient period to get a genuine result. Earnings under war conditions are not a criterion.

By the way, let me refer to your question about Government control. I should like to quote the act itself. Section 14 provides:

That the Federal control of railroads and transportation systems herein and heretofore provided for shall continue for and during the period of the war and for a reasonable time thereafter, which shall not exceed one year and nine months next following the date of the proclamation by the President of the exchange of ratifications of the treaty of peace: *Provided, however,* That the President may, prior to July first, nineteen hundred and eighteen, relinquish control of all or any part of any railroad or system of transportation, further Federal control of which the President shall deem not needful or desirable; and the President may at any time during the period of Federal control agree with the owners thereof to relinquish all or any part of any railroad or system of transportation. The President may relinquish all railroads or systems of transportation under Federal control at any time he shall deem such action needful or desirable. No right to compensation shall accrue to such owners from and after the date of relinquishment for the property so relinquished.

Senator KELLOGG. That time was prescribed to give Congress an opportunity to consider all needful legislation for the control of railroads after the war.

Director General McADOO. No, sir; on the contrary, every railroad man resisted any control for any period after the end of the war. They were all opposed to any control after the war.

Senator KELLOGG. I do not think you are correct about that.

Director General McADOO. As I recall the testimony, that was true. By the way, there were until quite recently resolutions appearing in the papers demanding the immediate return of the properties, as I recall them.

Senator KELLOGG. What resolutions?

Director General McADOO. Resolutions by the railroad executives, and also by—

Senator KELLOGG. Let us see about that.

Director General McADOO. And also by some railroad security holders, as I recall it.

Senator KELLOGG. I have never seen any resolutions by any railroad executives or security holders demanding a prompt return.

Director General McADOO. I think the railroad executives—I state this subject to correction—passed such a resolution.

A VOICE. We passed resolutions to the contrary.

ANOTHER VOICE. That resolution was choosing between an alternative of a five-year return and an immediate return.

Director General McADOO. I do not know about that, but I mention this as an indication of this general attitude toward Federal

control. There has always been heretofore an objection on the part of railroad owners to Federal control lasting for any period after the war.

Mr. THOM. May I ask how the record appears in regard to the railroad executives? I would like to have the record show—and I am sure that the record generally will show—

The CHAIRMAN. Have you the record before you?

Mr. THOM. We have passed no such resolutions.

Director General McADOO. I stated that subject to correction; I am glad to be corrected if I am in error.

Senator KELLOGG. Do you not think the American people, through their representatives, have a right to decide whether we shall have Government ownership or private ownership under Government control?

Director General McADOO. Certainly; that is what I want.

Senator KELLOGG. Do you not think they are entitled to a reasonable time in which to decide that?

Director General McADOO. That is what I am arguing for.

Senator KELLOGG. Do you not think, at the end of five years, they would not have any chance to decide it; that the managements of the railroads would settle it for them and make it impossible for them to be returned at all?

Director General McADOO. My opinion is just the reverse. I think if you have a five-year test period there will emerge from it some form of private ownership with strong Government control.

Senator KELLOGG. You stated you believed in unified operation of the railroads—unification of the railroads in the United States—as I understand it. Is that correct?

Director General McADOO. Yes; I believe that we should test further the question of unification.

Senator KELLOGG. But you have expressed your opinion—

Director General McADOO. I have not reached any final conclusion about the ultimate form of control. I believe that a longer test of unified control ought to be made, and I think it would be very advantageous.

Senator KELLOGG. You think there should be a unification further of terminals—passenger and freight terminals, as I understood you?

Director General McADOO. I do.

Senator KELLOGG. There ought to be a unification of equipment and interchange in the use of equipment?

Director General McADOO. Yes. I would not call it unification so much. It depends upon the form of control you adopt. I think that it ought to provide for some flexibility.

Senator KELLOGG. Before the Government took over the railroads, where it had the power to do as it pleased, the policy of Congress and the policy expressed in the laws it passed, prohibited such unification, did it not?

Director General McADOO. To some extent, I believe.

Senator KELLOGG. To a very great extent, did it not—the railroads could not agree among themselves to route traffic over any lines they pleased, could they?

Director General McADOO. I think they could. I mean, of course, that the shipper routed it—

Senator KELLOGG. The law provided the shipper should route it.

Director General McADOO. But the railroads induced the shipper to route it, which is the same thing.

Senator KELLOGG. In other words, a long line and a short line, running from Chicago to New York, for instance, could not agree as to what freight should go over the respective lines, could they?

Director General McADOO. I think that is true.

Senator KELLOGG. And neither could they agree that one road should run more passenger trains than the other and vice versa?

Director General McADOO. To my mind, those matters have no bearing on the situation, because, after all, what you are discussing is whether or not, in some solution of that problem, even if private ownership is retained, unification of these facilities or some flexibility should be preserved.

Senator KELLOGG. I think you are quite right about that, but I say that the policy of the law, before the war, before the railroads were taken over, was one of competition to the extreme and prohibition of unification, which you now advocate. Was not that the fact?

Director General McADOO. In large measure that is true. The competition, as encouraged by the law and provided by law, prohibited many things which I think were important to be done.

Senator KELLOGG. You take the unification of ticket offices in the country: The railroads tried to do that and were prohibited, were they not, in the Northern Securities case?

Director General McADOO. I do not recall that.

Senator KELLOGG. That was one of the principal complaints, that they unified their passenger offices.

Director General McADOO. The decision did not hinge on that, did it?

Senator KELLOGG. That was one of the questions involved.

Director General McADOO. I do not know whether that particular question was ever decided or not.

Senator KELLOGG. As a matter of fact, they were prohibited.

Director General McADOO. I have not had an opportunity to examine the decision. I think joint ticket offices were permitted.

Senator KELLOGG. Joint station offices, where they had union stations, but the general policy of the law was to prohibit this unification which you have now adopted. You think that law should be changed?

Director General McADOO. Yes; if existing law prohibits unification of ticket offices.

Senator KELLOGG. Now, to have a complete unification, you must have all roads belonging to one company or one government—

Director General McADOO. No; I do not think so.

Senator KELLOGG. There is complete unification?

Director General McADOO. I do not think so. I think it is possible to work out unification under private ownership, operating under the regional system. I think it is possible to work out unification under Federal control of competitive systems, for instance, that are not restricted to regions.

Senator KELLOGG. Why can not Congress authorize, under the provisions of the Interstate Commerce clause, or some other equal authority, this unification so there will be complete Government control over it and it will not be abused?

Director General McADOO. I could not express an opinion on the merits of your proposal, Senator, unless I knew just what it comprehended.

Senator KELLOGG. I would like to ask more questions, but I will not do so to-night.

Mr. THOM. In my answer to your question a while ago, I may have left an impression that was erroneous. I think I said no resolutions had been passed on the subject. What I meant to say was that no resolutions had been passed to that effect. There were resolutions passed on the subject. I will be glad to furnish them.

Director General McADOO. Perhaps my error, Mr. Thom, arises from the fact that I read in the papers that the railroad executives had passed some resolutions demanding the prompt return of the properties.

The CHAIRMAN. Some others may desire to ask you some questions, and we will have these hearings continued to-morrow. You mentioned a moment ago that you might have some statistician from your department that you would like to have heard.

Director General McADOO. Yes.

The CHAIRMAN. I would like to make this request: The committee had decided, when they had these hearings, to divide up the hearings into heads that were published in the papers, and which I need not now refer to, and I shall be very glad to have you furnish us a list of those you want to be heard from the Railroad Administration touching these points.

Director General McADOO. I am delighted to be at the service of the committee. My plans were made some time ago to leave Washington shortly, and it would be inconvenient to me to come here to-morrow. I think, if you will allow Mr. Hines, who is the assistant director general, to come and finish the hearing, that he can give you all the information I can, and perhaps give it to you a great deal better. If that will be agreeable, I shall be glad to have Mr. Hines come in my place to-morrow.

Senator KELLOGG. When do you want to come back? I have some other questions I should like to ask.

Director General McADOO. If you prefer to examine me instead of Mr. Hines, I shall be glad to stay.

Senator KELLOGG. I want to ask a few other questions.

Senator TOWNSEND. I may want to ask some questions. I do not want to enter into any argument; I simply want information. Will it be perfectly convenient for you to be back to-morrow morning?

Director General McADOO. It will not be, but I will make it convenient if it is a matter of any consequence.

Senator WATSON. Can you return for an hour to-morrow morning?

Director General McADOO. Yes. I was wondering if Mr. Hines would answer the purpose, because he knows all I know about this problem.

Senator TOWNSEND. Does he know all about this statement you made? That is your testimony, and there were some things I wanted to inquire about.

The CHAIRMAN. I will submit to the committee, then, the hour of meeting. If it is agreeable to the committee we will meet in the

morning at 10 o'clock and ask Mr. McAdoo to come back at that time for an hour at least.

Director General McADOO. May I ask if you could conclude with me within an hour, so I may make my arrangements?

Senator KELLOGG. I shall require only a very few moments.

The CHAIRMAN. Then it is understood that we will go on tomorrow morning at 10 o'clock and that the Director General will present himself at that time before the committee.

(Whereupon, at 5 o'clock p. m., an adjournment was taken to tomorrow, Saturday, Jan. 4, 1918, at 10 o'clock a. m.)

EXTENSION OF TENURE OF GOVERNMENT CONTROL OF RAILROADS.

SATURDAY, JANUARY 4, 1919.

UNITED STATES SENATE,
COMMITTEE ON INTERSTATE COMMERCE,
Washington, D. C.

The committee met, pursuant to adjournment, in room 410, Senate Office Building, at 10 o'clock a. m., Senator Ellison D. Smith (chairman), presiding.

The CHAIRMAN. The committee will come to order. Senator Kellogg, you may proceed.

STATEMENT OF HON. WILLIAM GIBBS McADOO, DIRECTOR GENERAL OF RAILROADS—Resumed.

Director General McAdoo. Mr. Chairman, before we begin I should like to say that yesterday Senator Kellogg asked a number of legal questions which I was not able to answer off-hand, particularly with reference to the application or continuation of the present rate structure in the event the roads are turned back to private control. I have had an opportunity to look into those questions very hurriedly since, and I am satisfied that the existing rate structure would continue until it was changed by orderly procedure, even where the statutes of States, as has been suggested, fix the rates.

I also find nothing to justify your apparent conviction, Senator Kellogg, that it is unlawful to maintain joint ticket offices. I think consolidated ticket offices can be maintained without doubt. I think also that the—

Senator POMERENE. Do you mean by that by the present administration, or that under—

Director General McAdoo. I think that under private control combined ticket offices can be maintained. I know of no legal obstacle in the way of that.

Senator WATSON. Did you examine, in that connection, the decision in the Northern Securities case?

Director General McAdoo. I had that in mind as well.

Senator WATSON. Was not that one of the points decided? It has been some time since I read it, but it is my recollection that that was decided.

Director General McAdoo. I do not so construe it. I do not think the case turned on that point at all.

Just a word more: I think the power of the Interstate Commerce Commission to prevent discriminations could be invoked in the event any attempt was made to apply unfair rates, and I assume the Interstate Commerce Commission would, of course, exercise its power.

There would be still another course open to the carriers, and that would be to invoke the aid of the courts if any proposed rates were confiscatory. It may be, in view of the altered conditions in the world with tremendously increased costs that some of those statutory rates, if asserted now, would be confiscatory, and certainly in that case the courts would, upon application, review them. But in any event, I am convinced that the present rates would survive until they are altered by proper legal procedure. I am simply stating my conclusions. The reasons for these conclusions I should be glad, if you are interested in hearing them, to have Mr. Hines present.

Senator KELLOGG. Now, Mr. McAdoo, I am not going to stop to argue the legal questions with you at all, but the sole power by which you made the rates was under this act granting Federal control during the war; that is, as a war measure, but it provided that the—

Federal control of the railroads and transportation systems herein and hereinbefore provided for shall continue for and during the period of the war and a reasonable time thereafter.

That is the end of it.

Director General McADOO. Unless earlier relinquished.

Senator KELLOGG. Just wait a moment—and when that act has ceased or has been repealed by what authority do you make the rates, especially as against the statutes of the States?

Director General McADOO. I have stated my conclusions about that, and I should be glad to support them with a brief.

Senator KELLOGG. I think you are wrong.

Director General McADOO. Perhaps I am, but I think not. Lawyers frequently differ. I shall be glad to have either Mr. Hines present later some views on that subject, or with the permission of the committee, to file a brief in support of the views I have expressed. May I have permission to do that?

The CHAIRMAN. Yes.

Senator KELLOGG. Secondly, you say that the unification of all ticket offices in the United States would be legal, you think, under the Sherman Act.

Director General McADOO. I think so.

Senator KELLOGG. Do you not know that one of the principal points the Government has made in all the cases in which they have prosecuted the railroads for consolidating in violation of the law, was that they unified the ticket offices and decreased competition to that extent?

Director General McADOO. You are still on the legal questions. I should like to submit a brief on that.

Senator KELLOGG. All right. Do you not know that last year, 1917, the railroad presidents organized a committee and undertook—I think the best they could; I am not sure; I am not familiar with the operation—to unify the systems of roads during the war as much as possible, using each other's facilities, routing freight over the least congested lines, in order to handle the business for the Government most expeditiously?

Director General McADOO. I know they had such a committee, but I am not familiar with all of its activities.

Senator KELLOGG. Do you not know the Attorney General inquired of them by what authority of law they were unifying the railroad ticket offices?

Director General McADOO. He might have inquired, but I did not know of it. It was not brought to my attention.

Senator KELLOGG. The intimation was they were violating the Sherman law.

Director General McADOO. Let me say that I believe the railroad executives were trying patriotically to do everything they could to relieve the situation. I think the inherent difficulties in a competitive system of railroads made it impossible for them to accomplish it. I think, again, that undoubtedly various laws of the country forbade them to do many things the Government could do, and therefore, it was essential that the railroads should be taken over for war purposes. I think those gentlemen were very earnestly and patriotically doing everything they could possibly do, but natural competitive interests—the unwillingness of one company to give its business to another—stood in the way of their doing many things that they might have done, as well as the laws to which I have referred.

Senator KELLOGG. Mr. McAdoo, do you believe, then, in the elimination of all competition?

Director General McADOO. I am not prepared to say that.

Senator KELLOGG. That is what we are trying to get at.

Director General McADOO. No; we are not.

Senator KELLOGG. Yes; that is one of the questions.

Director General McADOO. Of course, we are trying to get at the whole problem, but I am not prepared to give an answer to that to-day. I think a further test should be made in order to determine it. I can not mature my views on the experience I have had.

Senator KELLOGG. You are not testing them on the question of competition; you are testing them on the total elimination of competition?

Director General McADOO. I am not satisfied yet that it is wise to totally eliminate competition.

Senator KELLOGG. Of course, there can not be any competition in rates. There should not be, but do you not think that competition in service between the great transportation systems of this country has given us the best transportation and has been the most important factor in giving us good transportation?

Director General McADOO. I think it has been an important factor. I am frank to say that I think the abuses of competition are very grave. They inhere in the system and are very serious, because of the great favoritism that is frequently exercised under private control in favor of the powerful shipper as against the less powerful shipper, and in many other directions. I therefore feel that competition is not an unalloyed blessing. My feeling about the problem is this: To get a permanent solution, the things we are now learning from a central control and which will develop undoubtedly much more clearly in time of peace, will indicate the extent to which competition ought to be preserved, or may indicate that competition ought not to be preserved at all. I am not prepared to give a final judgment on the railroad problem. That is my difficulty. I wish I were in a position to do so.

Senator KELLOGG. Eliminating the question of competition in rates, which means cut rates and all that, under the control of the Interstate Commerce Commission can there not be a fair competition

in service, say, between Chicago and New York and Chicago and San Francisco and most of the points in the United States, between competitive systems of railways, permitting them, under the control of the commission, to unify to a very great extent and route freight over the shortest line, etc.—can there not still be a large degree of competition in service?

Director General McADOO. I think[\] there may be some degree of competition. It depends entirely upon the plan and the law that may be enacted and the authority that may be given to the Interstate Commerce Commission. There is the difficulty. The very questions you ask, Senator, indicate the complexities of the problem. You can not speak of this question in general terms unless you are merely trying to start with a fundamental principle upon which the solution is to be based. If you start with the suggestion that you want to preserve competition and reduce the number of railroads, then we have one principle upon which to proceed. That would imply a certain character of legislation.

On the other hand, if you should say you want to have competition only between regions, and monopolies within those regions, there is another principle and it implies another form of legislation. If you say you want no competition, then you have to start the legislation from that point. So I say I am not prepared to answer any hypothetical question that does not contain within it the principle and outline of the plan you have in mind.

Senator KELLOGG. Now, Mr. McAdoo, five years' trial of complete unification and Government operation—or how will five years of trial of complete unification and Government operation illuminate the various other plans? Will not we be confronted then with this situation, that the men who are put in control will come here more or less as you have, with a brief on behalf of Government operation and they will sustain their Government operation if possible? We are not going to get any light on the other subjects that we want. What we want is information on the whole sphere. How will we get that?

Director General McADOO. That is merely an expression of opinion. I can not tell what will be the result at the end of five years. I do not know what facts will develop. I think, however, that certainly it is in the interest of the American people, in the solution of a problem of such magnitude and complexity as this, to obtain all possible knowledge that will help them to decide it intelligently. My belief is—and it is merely my opinion, as I have repeatedly said—that a further test will be of infinite value to the American people in getting a right solution.

Senator WATSON. If you were to continue as Director General, would you continue along the same line, operating the same under the same system as you have already in vogue, or would you try the regional control or group control; in other words, would you continue the same policy you outlined, and if you did continue the same policy, how then could we come to any sort of conclusion as to the relative merits of the other systems?

Director General McADOO. It is difficult to say whether or not we would observe precisely the same thing we are doing to-day. I think I should make a great many changes in organization, if I were to continue as Director General, under a five-year plan, and I should

operate these properties as a unified proposition, keeping, however, a very accurate record of the earnings of the various properties under the conditions of operation, and observing very carefully the effect of certain experimentation which might be indulged in during that period. That, in turn, would be governed by the conditions as they developed. I can not foretell the methods of operation.

Senator POMERENE. May I ask a question right there?

The CHAIRMAN. Certainly.

Senator POMERENE. Of course, you have outlined and pursued a general policy, and it goes without saying that you had confidence in that policy; otherwise you would not have pursued it. Assuming, for the sake of argument, that that is the best policy that could be adopted, what objection is there to so modifying the laws of the land as to permit the railroads to carry out this same plan of management themselves that you have pursued as director general?

Director General McADOO. I do not think they would accomplish it, Senator, because if you restore the diversified control, you can not at the same time carry out the policies of unification which have, thus far, been observed.

Senator POMERENE. Suppose that were done under the supervision and control of somebody like the Interstate Commerce Commission?

Director General McADOO. I do not believe that a commission can effectively administer a great industry like the railroad industry. I do not believe that executive direction and management of an industry of such complex character, can be successfully conducted by a commission. You might have an advisory board or you might have something that was in effect a board of directors—but they would have to be under the direction of some responsible head—a Cabinet officer, perhaps, although that has a political objection.

Senator POMERENE. Very well, assuming that is done, and you allow the railroads to have control of their properties subject to the general supervision of this executive head, what objection is there to that?

Director General McADOO. It depends upon how far-reaching the legislation is. Many practices I have alluded to ought to be preserved—I summarized them at one point in my statement—but I doubt very much if the people of the United States will be willing to permit the railroads to continue these practices after they have been restored to private control; in other words, the very question you ask indicates the difficulties of the problem. That is the reason I think the test of further time will be necessary.

Senator POMERENE. But here is the difficulty, as I see it: Assume, now, for the sake of the argument, that the five years' time is granted, and that the administration does not prove the success that you anticipate, and that, at the expiration of five years, it becomes necessary to turn these roads back to their managers under certain modifications of the law, what position are the railroad companies to be in at that time, and what will be the effect on the transportation business of the country, provided the present plan does not meet the expectations of the public?

Director General McADOO. You are asking me to project myself five years into the future. It is difficult to do. I think the test will determine that. I am confident that no harm will come out of it.

Senator POMERENE. But it may be answered also that we are, under your plan, leaving all of these railroads under Government control not knowing what the result is going to be.

Director-General McADOO. No one can guarantee anything for the future. You have got to take some chances. You have either got to make a further test or turn the railroads back or make some other disposition of them. Nobody can guarantee the outcome of any plan. My position and suggestion is simply to get further experience and knowledge of this very complicated problem by a test under peace conditions of operations, as well as under composed political conditions, if possible, because I think it is too grave an economic problem to attempt to deal with hastily; I think we can learn very valuable lessons from a continuation of this unified operation.

Senator POMERENE. I want to apologize to you, Senator Kellogg, for this interruption.

Senator KELLOGG. Not at all; I wish you would ask any questions you desire. I have no monopoly of this examination.

Mr. McAdoo, you say in your statement here about the permit system:

Probably it would not have been possible to meet the enormous demands made upon the transportation system during the past year without the utilization of the permit system, which prevents the loading of traffic in the absence of assurance that it can be disposed of at destination. This is a reform which under Government control would succeed in peace times as well as in war times—

Now, in addition to that, you have been aided in procuring full trains and complete or full car loadings by the War Industries Board and the Food Administration and the Fuel Administration, have you not?

Director General McADOO. You say that we have been aided in doing that?

Senator KELLOGG. Yes.

Director General McADOO. I do not think we have had any special aid in that direction. We have done that ourselves. We have had the cooperation of these boards to the extent it may have been necessary, but so far as the administrative end of the railroad problem is concerned, I do not know that they have rendered any special aid.

Senator KELLOGG. As a matter of fact, did not the War Industries Board refuse to permit anyone to purchase material unless he purchased 60,000 pounds, so as to ship not the minimum but the maximum carload?

Director General McADOO. I am not familiar with any such order. I did not hear of it.

Senator KELLOGG. You never heard of it?

Director General McADOO. No.

Senator KELLOGG. Did not the Food Administration furnish you trainloads of stuff instead of the shippers?

Director General McADOO. I am not sure of that; on the contrary, we were trying very hard to get the Food Administration, as we went along, to tell us where their stuff was so as to ship it in carload lots and in solid trains.

Senator KELLOGG. Did not the Fuel Administration prohibit mines from selling coal in certain districts, etc., with a view to assisting you?

Director General McADOO. The Fuel and Railroad Administrations agreed on the zone system.

Senator KELLOGG. Now, in peace time, we are not going to have the Fuel Administration or the Food Administration with absolute arbitrary powers as have existed in war times?

Director General McADOO. No, but I do not think the permit system implies the continuation of the Fuel and Food Administrations or the zone system. The permit system—may I explain this?

Senator KELLOGG. Certainly.

Director General McADOO. The permit system would be carried out in peace time, in my opinion, to this extent: That if a shipper proposes to ship to some point where the facilities are already overtaxed or where an impending congestion would make it inadvisable to send the shipment forward unless the consignee was prepared to move promptly—then the power should rest somewhere to prevent the shipment until there was an assurance that it could be promptly moved at destination.

Senator KELLOGG. This power you get under this act, which gives you absolute control of the roads during the war would cease when that act is repealed or when it ceases to exist, and you would go right back to the old law?

Director General McADOO. I think so. Now as to that feature, of course, the permit system will not be as essential in peace time as in war time.

Senator KELLOGG. I have no doubt it will be essential, but heretofore the law has prohibited any such thing by the shipper or by anybody else.

Director General McADOO. The railroads met it by general embargoes. I think the permit system may be—

Senator KELLOGG. The permit system could be used in peace time, you think?

Director General McADOO. I think so.

Senator KELLOGG. There is something we could get by granting authority to the Interstate Commerce Commission or some executive to supervise it to see that it is carried out. That could be granted in peace time.

Director General McADOO. I think, undoubtedly, you can pass some bill, if you can get a meeting of minds of enough of the men in Congress to constitute a majority.

Senator KELLOGG. Unquestionably.

Director General McADOO. But it is a question whether you can get a sufficient number of the minds to meet on the right solution.

Senator KELLOGG. We have got to do it some time. Why not do it now?

Senator UNDERWOOD. While we are on that permit system—there may come a time when we will have to consider it and I am not at all clear in my mind that a permit system is necessary when we return to peace conditions—I would like to ask the secretary to emphasize that a little, after I have expressed what my view is, because I may be wrong, as to the idea of possible future legislation on that subject.

Mr. Secretary, I understand the permit system was necessary during the war, and that it grew out of the fact that freight was congested in terminal ports. I do not understand that there was much difficulty in delivering freight when it went to consignments on this

side of the water. Local consignments were delivered when they reached the destination, but the congestion grew out of the fact that there was a serious congestion before we entered into the war, and even after we entered the war there was a vast amount of freight billed for foreign shipment, and that we did not have the ships to move those shipments, and that the great congestion of freight was due to that. There may have been minor conditions at other places, but the great congestion was due to lack of shipping facilities and the lack of warehouse facilities at terminal ports. Now, with the termination of the war, shipping facilities will resume the normal, and we will have a very much larger fleet to carry our commerce than we had before. Why should we have a continuation of the permit system after we have had—I do not mean to-morrow or the next day, but two years from now, after we have really reached peace conditions?

Director General McADOO. One has to forget the past railroad experience, the past railroad stringencies, which have been as recurrent almost as money stringencies, prior to the war, if he thinks the permit system will not be required in peace time. I think it will not be nearly so necessary in peace time as in war time, but it is a reserve emergency power that should reside somewhere to be exercised under proper regulation. I should not be willing, myself, to advocate a permit system which would put it exclusively in the hands of the carriers to determine when a permit should be granted, although I think that is far less hurtful to the public interest than the general embargoes which the railroads under private control used as a remedy. I think the power to issue permits should be exercised under careful regulation by whatever superior authority may be designated. If the Interstate Commerce Commission should be employed as the agency, or whatever authority may be created to deal with such matters under the bill you evolve, that agency should be vested with that power.

Senator UNDERWOOD. Do you think that after we get out of the war conditions that the business growth of the United States will move along its own lines with greater rapidity and greater facility if it is left alone than if restricted by legislation? I do not mean to say it does not have to be restricted at times, but where it is possible to avoid restrictions and allow business to work out its own destiny, does it not produce better results than if you attempt to direct it into artificial channels?

Director General McADOO. I, myself, am not in favor of artificialities, but that is a wide and weighty question you ask, Senator, and it will take a lot of discussion to answer it. We can not expect the nation to develop satisfactorily unless we make a great improvement in railroad facilities.

Senator UNDERWOOD. I agree with you on that, but I am talking about the permit system. Of course I recognize, in some respects, we have to pass remedial legislation with reference to the railroads, but my own view is that we should not go any further than the conditions of the country require.

Director General McADOO. This is merely an emergency power that should be in reserve somewhere. I suggested it not as independent legislation at all, but as part of the comprehensive legislation that should be enacted.

I do not know that it will fit private and diversified control unless, as I said before, you fix some sort of comprehensive regulation that

will prevent abuses of it. It is a wide power and is susceptible of grave abuse in the hands of private corporations without strict regulation.

Senator UNDERWOOD. I beg your pardon for interrupting you, Senator Kellogg.

Senator KELLOGG. That is all right. You stated yesterday, Mr. McAdoo, that you thought rates could be reduced within the next year. Did I understand you correctly?

Director General McADOO. Yes; I said under certain conditions.

Senator KELLOGG. As a matter of fact, the Railroad Administration is now contemplating and has plans on the board for increasing the rates, has it not?

Director General McADOO. No; I do not so understand it. The plan we submitted—certain plans for equalization of rates and eliminations of inequalities—may involve, and would of necessity involve, the raising of rates in some places where they are too low, and reducing them in others where they are too high, and also simplifying the classifications.

Senator KELLOGG. Of course I do not wish to be understood as saying they are not necessary at all, but, as a matter of fact, in December, I think it was, did you not raise the rates on the Pacific Coast lumber from 1 to 7 cents per hundred pounds?

Director General McADOO. I can not answer that offhand. I do not keep all those details in mind.

Senator KELLOGG. Did you not also raise, in December, the rates on flour—grain and flour—from Chicago and related territory to the Atlantic ports about 2 cents per 100 pounds?

Director General McADOO. If you will let me have those questions I will give you an answer.

Senator KELLOGG. They are questions with which you are not familiar?

Director General McADOO. Not in detail. I will have Mr. Chambers answer them. He is Director of the Division of Traffic, and I may say here, in order that I may not be charged with a lack of knowledge of what is going on in the Railroad Administration, that with respect to certain of these details, it is impossible for the director general to keep informed. The Director of the Division of Traffic, the Director of the Division of Operations, and the Director of the Division of Accounts—all of those men, of course, have authority to proceed with matters within their respective jurisdictions.

Senator KELLOGG. I do not wish to take up your time with matters about which you do not know.

Now, about equipment. How many new cars per annum does it take to keep the equipment of the country up to standard—I mean, taking into consideration cars destroyed, going out of business, etc.?

Director General McADOO. I will have to send you an answer to that.

Senator KELLOGG. Somewhere about 100,000 cars a year, is it not?

Director General McADOO. I think so.

Senator KELLOGG. The railroads have been in the habit of buying, usually, more than that?

Director General McADOO. I am not sure.

Senator KELLOGG. I would like to have made a part of my question this statement—

Director General McADOO. I will confirm the figure you gave Senator.

Senator KELLOGG (continuing). From the Interstate Commerce Commission, showing the purchases for the last few years. As a matter of fact, this year, up to the time you testified here, you only received 14,650 new cars.

Director General McADOO. We ordered 100,000 cars 8 months ago, but on account of the pressure for war supplies and the difficulties of manufacture, all have not been delivered. They are being built.

(The paper referred to is here printed in full, as follows:)

INTERSTATE COMMERCE COMMISSION,
BUREAU OF STATISTICS,
Washington, May 17, 1918.

Number of cars and locomotives added and retired in the United States, each year, 1908 to 1916.

The attached sheet covers Class I roads only, but these roads own over 96 per cent of the cars of all steam roads. Annual reports for the calendar year 1917 have not yet been received from all carriers.

Number of cars and locomotives added and number retired each year ended June 30, 1908-1916, Class I steam roads, United States.

Year ended June 30-	Number of freight service cars.		Number of passenger service cars.		Number of company service cars.		Number of locomotives.	
	Added.	Retired.	Added.	Retired.	Added.	Retired.	Added.	Retired.
1908.....	171,556	70,976	2,183	1,630	12,568	5,978	3,227	1,140
1909.....	67,925	83,223	1,786	1,591	7,322	5,341	1,549	1,333
1910.....	134,593	75,652	3,505	1,914	15,033	6,818	3,073	1,452
1911.....	125,532	68,031	4,250	1,701	12,931	6,921	3,694	1,468
1912.....	97,972	68,876	3,060	1,387	10,630	8,800	2,861	1,858
1913.....	162,670	96,825	2,823	1,842	13,014	8,507	4,381	2,338
1914.....	150,813	96,985	3,629	1,854	12,354	8,159	3,245	1,862
1915.....	86,012	90,347	2,664	1,385	10,228	11,787	1,114	1,507
1916.....	88,254	109,996	1,261	2,156	13,086	13,446	1,475	2,576

Senator KELLOGG. How many locomotives does it take to keep that equipment up to standard?

Director GENERAL McADOO. I will have to give you those statistics. I have not got them at my fingers' end.

Senator KELLOGG. Your other assistants will give that?

Director GENERAL McADOO. If I am not mistaken, the annual consumption of locomotives in the United States is about 3,500 or 4,000.

Senator KELLOGG. I do not think it is as large as that.

Director General McADOO. It is about 4,000. That is about right.

Senator KELLOGG. They require that much to keep up with the business, but not to keep up to the standard.

Director General McADOO. I am speaking about the orders; the annual increment of locomotives is about 4,000.

Senator KELLOGG. This year you have only purchased 542, as I understand it.

Director General McADOO. No; there have been delivered about 542.

Senator KELLOGG. So that the locomotives and car equipment of the country is decreasing instead of increasing?

Director General McADOO. No; I would not say that. Numerically, yes: as effective units, no. In other words, under the unification of equipment and of motive power we really have increased the effective capacity of each unit to such an extent that less equipment demanded than would be demanded under the competitive system or diversified control.

The CHAIRMAN. May I ask right here, Mr. Secretary, is there any very great complaint as to lack of rolling stock for moving commerce now?

Director General McADOO. Not as to freight cars. There is a cry serious lack of passenger equipment because of the undue demands which are being made upon it for handling troops.

The CHAIRMAN. There is no complaint with reference to commerce—the movement of commerce?

Director General McADOO. We have an easier car supply at the present than we have had at any previous time during the year.

The CHAIRMAN. Is it adequate now; so far as you know?

Director General McADOO. It is adequate at the moment. Of course, replacements are necessary for obsolete equipment.

The CHAIRMAN. The reason I asked this question—I will want to ask some further questions when you get through, Senator—is that I wanted to bring out at this point this information, because I consider it very germane.

Senator KELLOGG. I have one or two other questions which I desire to ask and then I will have concluded.

Senator CUMMINS. You say there is no serious complaint now in regard to the movement of freight?

Director General McADOO. As to car shortage, yes.

Senator CUMMINS. The movement of freight promptly and speedily?

Director General McADOO. I think so. Mr. Tyler, who is Assistant Director of the Division of Operations, can tell you more about that than I can.

(The following statement was furnished later by Director General McAdoo:)

The movement of certain commodities, raw materials which move in considerable bulk, has been systematized to the end that general improvement in the handling of such commodities is given. This particularly refers to lake coal; ore from lake docks to the furnaces; lumber from the Northwest; copper, lead, and zinc from the West and Southwest to eastern consuming points; cotton to northeastern mills; oil from the Mid-Continent, Wyoming, and Texas fields to eastern and Gulf ports; phosphate rock from Florida and Tennessee to chemical and fertilizer plants in the Northeast, and sundry other commodities moving in less volume.

The Pennsylvania lines west have maintained data indicating that their hopper cars which included movement of coal to the Lakes maintained during the month of September, 1918, an increased average mileage per car per day of 15.3 per cent over the corresponding period, 1917. The mill gondolas of the Pennsylvania Railroad maintained during the month of September, 1918, an average of 64.8 per cent greater mileage per car per day than during the same period of 1917. This would indicate that the volume of Lake coal and ore and to a certain extent, steel products must have been given better handling than during the previous year.

The movement of lumber from the Pacific Northwest to eastern markets, both for Government and commercial use, was organized into train-lot movements and information coming from various sources indicates that this movement was regular and prompt, giving much satisfaction to the trade generally. It is also a fact that some progress was made in systematizing the movement of lumber from the South.

Definite routings have been fixed for the handling of metals from the West and Southwest, such products being shipped daily up to production capacity, and advice from the trade as to the results obtained is most satisfactory.

Movements of sulphur from the Texas fields to the consuming points have largely been arranged in train units with favorable results which are definitely known.

One of the principal commodity movements to which attention can be drawn as an example of improvement in service is that of oil. This also was systematized into train-lot movement. Improvement noted by the oil division of the Fuel Administration, which was particularly interested, was remarkably good and most favorably commented upon on different occasions.

In the handling of less-than-carload freight the figures for October 1918 and 1917 may be cited and which represent about the normal improvement shown over corresponding periods of previous year. In October, 1918, for instance, the pounds of less-than-carload freight per car were 16,176, while for corresponding period in 1917 the figure was 14,874, percentage of increase 8.75 per cent. This means that a much greater volume of merchandise freight was handled (total pounds in October, 1918, was nearly 13,000,000,000) in much less equipment, reflecting fewer cars to be handled at transfers, more freedom from congestion at transfers, and hence much less delay to the average individual shipment.

It is definitely known that under the shipping day plan, which is now well started, less-than-carload shipments are actually moving in greater volume in direct-destination cars, avoiding transfer, and hence eliminating much delay heretofore experienced. New England, for instance, is making straight cars for San Francisco where heretofore this freight has been handled through various transfers. Test was made showing that cars arrived in 19 days, whereas less-than-carload freight previously might take one to two months under favorable conditions in traveling this distance.

In general, it seems a fair statement that the service is more regular and dependable now than heretofore under the heavy strain which the roads have been called upon to bear.

Senator CUMMINS. I understand in some parts of the country there is a very serious complaint at this time.

Director General McADOO. Can you tell me from what part of the country it comes and what it is about?

Senator CUMMINS. I think particularly with reference to the movement of live stock.

Director General McADOO. I do not think it exists now. Let me say with reference to this live-stock business, that that matter came to our attention last fall. The price of sheep was very high. For that and other reasons, everybody wanted to ship their sheep at once. I can give you statistics to show that we made a larger movement of live stock—

Senator CUMMINS. I am in receipt of some very serious complaints in my own State in regard to the speed of freight trains in getting live stock to Chicago.

Director General McADOO. I should be very glad to give you some illuminating information on that, Senator, and I think you will find that the situation was handled very much better than heretofore. Mr. Tyler, will you prepare some data on that live-stock movement?

Mr. TYLER. Yes, sir.

Director General McADOO. We have the figures, and I think the figures will tell the story.

The following statement was furnished later by Mr. McAdoo:

Indicative of the greater movement of live stock, I quote below the combined live-stock receipts at Kansas City, St. Joseph, St. Louis, South St. Paul, Chicago, Omaha, and Sioux City for the year 1918, compared with 1917:

Live stock.	1918	1917	Increase.	Per cent.
Cattle.....	12,993,000	11,286,000	1,707,000	15
Hogs.....	25,105,000	20,887,000	4,218,000	20
Sheep.....	11,992,000	9,983,000	2,009,000	20
Total.....	50,090,000	42,156,000	7,934,000	19

The effect of the zoning system and the regulated or specified handling of live stock as resulted generally in a better and more satisfactory movement.

The annual report of the regional director for the southwestern region, just submitted, shows that the maintenance of live-stock train schedules has been closely supervised and a general improvement effected notwithstanding the principal live-stock market points in this region (Kansas City, St. Louis, and Fort Worth) have enjoyed very substantial increases in receipts, ranging from 7 to 62 per cent monthly.

The annual report of the regional director for the eastern region, just submitted, shows that arrangements were inaugurated in June, with the concurrence and cooperation of the shippers, for assembling live stock, fresh meat, live and dressed poultry, and perishable freight in solid trains and forwarding from Chicago, St. Louis, Cincinnati, Buffalo, and other western points on specific days of the week via roads best fitted to handle them, resulting in a reduction of the feeding requirements for live stock and in the number of fast trains required to handle them. The decrease from Chicago alone has been 11 trains per day, and the average cars per train of high-class and perishable freight has increased from 23 to 36.

Senator CUMMINS. This is not a comparative complaint. It has existed heretofore at times, but I am given to understand that it is pretty serious now.

Director General McADOO. My point is this, Senator, that I think the unified control has met that situation better than it has ever been met before.

Senator KELLOGG. There is one other question I would like to ask you. You have stated that certain economies have been brought about by Government management. The specific items are as follows:

"The specific items which produce this saving include the unification of terminals and stations, the elimination of passenger service, reductions in organizations, and miscellaneous economies."

Now, during this time you have had the benefit of the absolute power to route freight over the shortest lines, to fill the trains, to carry large trainloads, without regard to the wishes of the shipper. Have you not made an elimination of a lot of passenger trains and used that motive power thus saved, to some extent for freight? You have had all those powers, have you not?

Director General McADOO. We have had the opportunities, yes. That is one of the advantages, I think, of unified control.

Senator KELLOGG. Of course that can be worked out through private ownership with the proper Government supervision, can it not?

Director General McADOO. I am not so sure of that. It is a difficult matter.

Senator KELLOGG. Now, in spite of these economies, in spite of the fact that the rates have been increased from 25 to 50 per cent that you have been able to concentrate traffic and take essentials in large train loads and large carloads, and control not only the shippers, but the traffic, I notice that, for 10 months, the operating expenses to gross earnings have increased over last year from 69.87 per cent to 80.53 per cent. Can you explain that?

Director General McADOO. I can. That is very simple. In the first place, we were running the railroads to meet a war emergency which necessitated an excessive cost of operation frequently.

Senator KELLOGG. Last year—a good deal of the year—they were being run to meet a necessity brought about by the war?

Director General McADOO. We did not get into the war until the 6th of April.

Senator KELLOGG. 1917.

Director General McADOO. That is what I say; and the excessive cost of the war pressure did not assert itself industrially for some time after that, and in addition, the movement of soldiers to the cantonments did not begin until September of that year.

Senator KELLOGG. But the fact remains—

Director General McADOO. Let me answer. The wages of labor and the working conditions in 1917 during that time were lower than we had to make them under Federal control. There was an ascending scale of wages which had to be met, because fundamentally railroad labor was much underpaid and the working conditions were certainly not what they should have been.

Senator KELLOGG. We understand that.

Director General McADOO. I beg your pardon. You asked me how I explained it, and I want to explain it again, because I think it is important that this should be kept in mind: There has been a constant effort to discredit the value of unified control by contending that it is a failure from the earning standpoint. I do not think that is the basis from which we should approach it. That is the reason I want to test it under peace conditions, under normal conditions, so that we can see what can be done. Now, under war conditions, after the Government took control of the railroads, we had to increase wages of labor and alter the conditions of service very materially, which added immensely to the cost. We also had to meet very greatly increased cost of fuel and supplies of all kinds, which does not appear in the statements for 1917. I think the deficit, for instance, this year, will be about \$136,000,000; \$140,000,000 represents increased cost of fuel alone, if we say nothing about wages. The increased rates did not go into effect until six months after Federal control had been in effect.

Senator KELLOGG. I am speaking about after the rates did go into effect.

Director General McADOO. I thought you were speaking of the 10 months' period. You covered the 10 months' period in your question.

Senator KELLOGG. I mean after the rates went into effect. You evidently did not understand. If the wages of labor are raised, and I have no doubt that that raise was justified, and materials are raised, and the whole thing, we will say, costs \$100,000,000 per annum, if you raised the rates enough to cover it, your percentage of operating expenses to gross earnings would be exactly the same as before, would it not, if the tonnage movement is the same?

Director General McADOO. If you make a proportionate raise all around; yes.

Senator KELLOGG. As a matter of fact, your tonnage, according to your statement, increased only 1.9 per cent, did it not? I think that was your statement.

Director General McADOO. May I answer your question? You were speaking about the last four months, were you not?

Senator KELLOGG. Well, take any one of them.

Director General McADOO. Since the increased rates went into effect is what I am talking about.

Senator CUMMINS. May I suggest you take the month of October?

Director General McADOO. Why not take the month of September?

The CHAIRMAN. Why not take the four months after the increase went into effect? Then you will get a better average.

Senator GORE. That is a good idea.

Director General McADOO. You really want to get the facts, I understand. One month will hardly state the facts.

The CHAIRMAN. Mr. Secretary, may I make a suggestion? Will you give to the committee the period from the time you increased wages and increased rates, or take from the time you increased the rates, and give the committee the result?

Senator GORE. Take July, August, September, and October for both years.

Senator POINDEXTER. Put in the four months.

Senator KELLOGG. Take July.

Director General McADOO. No; I said take September. But I prefer to take the four months.

Senator GORE. The broader your base the better.

Senator CUMMINS. Have you the figures showing that for the four months?

Director General McADOO. I present a table that we hastily made up here.

Senator KELLOGG. I was speaking about the percentage of increase.

Director General McADOO. I am going to give it to you. In 1918, gentlemen, the revenues for the months of July, August, September, and October were \$1,950,786,144.

Senator GORE. Please state that again, Mr. Secretary.

Director General McADOO. In 1918, for the months of July, August, September, and October—four months—the revenues were \$1,950,786,144. In 1917, for the same four months, the revenues were \$1,457,397,518. Now, deducting the back pay from the months of July, August, September, and October—deducting back pay, and simply charging against those months—the regular increased pay and expenses for that time, the operating costs in 1918 were \$1,315,000,000 in round numbers, or 67.4 per cent, and in 1917, for the same months, \$990,195,225, or 67.9 per cent.

Senator POINDEXTER. Is there any back pay to be deducted in 1917?

Director General McADOO. There was no back pay to be deducted in 1917. I am putting these figures on precisely the same basis as to wages and labor and everything else.

Senator GORE. Have you copies of that, Mr. Secretary?

Director General McADOO. I will put this in the record.

The statement referred to follows:

Revenues and expenses of Class I railroads and large terminal companies for the months July to October, inclusive, 1918 and 1917, taken from summary of monthly reports of large roads, compiled by the Bureau of Statistics, Interstate Commerce Commission.

[Decreases are indicated by italic figures.]

	July.		August.		September.	
	1918	1917	1918	1917	1918	1917
Railway operating revenues.....	\$468,379,804	\$348,394,394	\$502,759,622	\$366,223,601	\$488,135,960	\$358,798,497
Railway operating expenses.....	316,813,838	237,809,378	358,987,665	246,918,741	370,604,890	244,316,681
Net operating revenues.....	151,565,966	110,585,016	143,771,957	119,304,860	117,531,070	114,481,816
Taxes.....	15,803,327	14,898,911	15,596,969	14,774,952	16,102,550	16,797,896
Uncollectible railway revenue.....	63,609	35,863	51,907	57,017	38,567	45,993
Railway operating income.....	135,699,030	95,650,242	128,123,081	104,472,891	101,389,953	97,637,927
Equipment rents.....	3,578,670	<i>1,765,404</i>	1,013,144	<i>1,617,885</i>	928,386	1,509,270
Joint facility rent.....	<i>1,432,275</i>	<i>1,285,218</i>	<i>1,586,694</i>	<i>1,468,951</i>	<i>1,422,817</i>	<i>1,146,160</i>
Net operating income.....	137,845,435	92,599,620	127,549,531	101,386,055	99,038,750	94,982,497
Operating ratio.....	67.64	68.26	71.40	67.42	75.92	68.09

	October.		Four months, July to October, inclusive.		
	1918	1917	1918	1917	Increase or decrease.
Railway operating revenues....	\$489,332,259	\$382,544,311	\$1,950,786,144	\$1,457,397,578	\$493,388,566
Railway operating expenses....	383,372,566	260,057,219	1,431,379,402	990,195,225	441,184,187
Net operating revenues....	105,959,693	122,487,092	519,406,742	467,202,363	52,204,379
Taxes.....	16,396,539	16,621,554	64,200,201	62,671,651	1,528,550
Uncollectible railway revenue....	51,929	97,105	206,408	236,199	<i>29,791</i>
Railway operating income.....	89,511,225	105,768,433	455,000,133	404,294,513	50,705,620
Equipment rents.....	<i>1,249,022</i>	<i>1,937,173</i>	<i>2,479,934</i>	<i>7,212,355</i>	<i>9,692,289</i>
Joint facility rent.....	<i>1,156,077</i>	<i>1,130,782</i>	<i>3,938,256</i>	<i>3,589,187</i>	<i>369,069</i>
Net operating income.....	87,106,126	102,700,478	453,521,811	393,492,971	60,028,840
Operating ratio.....	78.35	67.98	73.38	67.94	5.44

The following table was submitted later by Director General McAdoo, showing a final statement of revenues and expenses of Class I roads and large terminal companies for four months, July to October, inclusive, 1918 and 1917, excluding back pay and including expenses of the United States Railroad Administration:

	1918	1917	Increase or decrease. ¹
Operating revenues.....	\$1,950,786,144	\$1,457,397,578	\$493,388,566
Operating expenses:			
Railroads (excluding back pay).....	1,315,107,326	990,195,225	344,912,101
United States Railroad Administration.....	² 1,939,220	1,939,220
Total expenses.....	1,317,046,546	990,195,225	326,851,321
Net revenue from operation.....	633,739,598	467,202,363	166,537,235
Taxes.....	64,200,201	62,671,651	1,528,550
Uncollectible railway revenue.....	206,408	236,199	29,791
Railway operating income.....	569,332,989	404,294,513	165,038,476
Equipment rents.....	2,479,934	7,212,355	9,692,289
Joint-facility rent.....	3,958,256	³ 589,187	369,069
Net operating income.....	567,854,667	393,492,971	174,361,693
Operating ratio.....	67.52	67.94	^b .42

¹ Decreases are indicated by italic figures.

² This amount represents the entire expense of the United States Railroad Administration for the four-months period: whereas the statement includes the revenues for Class I roads and large terminal companies only. The United States Railroad Administration also operates several hundred small railroads and steamship companies and several canals.

Director General McADOO. Now, the operating ratio—that is, the ratio of expenses to revenue—

Senator KELLOGG. Gross revenue.

Director General McADOO (continuing). To gross revenue, for the four months of 1918, was 67.52 per cent, and in 1917, it was 67.94 per cent; in other words, it was in favor of the unified operation, even under war conditions.

Senator KELLOGG. Those figures do not agree with the report of the Interstate Commerce Commission.

Director General McADOO. The Interstate Commerce Commission reports do not show the data as to back pay and I am deducting the back pay which was distributable over those months. If you want figures that are comparative, you must make those deductions for back pay.

Senator KELLOGG. I think we should have detailed statements for each of those months. I asked you for that yesterday.

Director General McADOO. And we shall be very glad to give them to you.

The following statement was submitted later by Director General McAdoo:

BACK PAY BY MONTHS FOR THE 10 MONTHS ENDED OCTOBER 31, 1918.

This information is not available by months for the reasons stated in the note at the foot of the succeeding statement.

There was no actual back pay included in the accounts for the five months ended May 31, and the amount of additional compensation allowed by General Order No. 27, applicable to that period was \$230,731,277, as shown on the following statement.

The expenses for the month of June included \$133,043,201 back pay, applicable to the five months ended May 31, 1918. No back pay was included in the expenses for the month of July.

Back pay included in the accounts for the four months July to October, inclusive, amounted to \$116,272,076, but the amount included in each month is not yet available, although being compiled by the roads as explained in the following statement.

Back pay included in accounts for months of July to October, 1918, inclusive.

Back pay included in operating expenses, July to October, inclusive... \$116,272,076

The amount included in each month separately is not readily obtainable.

The foregoing estimate is based as follows:

Final report of increases caused by General Order No. 27 and Supplement No. 4, both of which were retroactive to January 1, shows (for the months January to May, inclusive).....	230,731,277
Of this amount there was included in June expenses.....	133,043,201

Leaving (included in the months July to October).....	97,688,076
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In addition, these months included the back pay for the month of June on Supplement No. 4, which was not put out until after the June accounts were closed.....	18,584,000
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Total.....	116,272,076
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NOTE.—The carriers were not required to report each month the back pay included in the expenses, and, consequently, this information was not available from the records in Washington. Immediately after the hearing on January 4, all of the Class I railroads were instructed by telegraph to report the back time included in the accounts for each of the months from July to October, inclusive. This information is now being assembled but as yet complete reports have only been received from two roads.

Senator KELLOGG. Your figures do not compare with the reports of the Interstate Commerce Commission—they are nowhere near them.

Director General McADOO. The Interstate Commerce Commission's figures do not make the deductions for back pay that I am telling you about. For instance, in the month of June last, we charged up back pay—retroactive back pay—against operating expenses for the month of June, amounting to \$133,000,000. The month of June, under Government operation—unified operation—was quite a bad one for this reason—I do not think it is fair to take the month of June as indicative of operating conditions for the whole year. As soon as the returns come in, a detailed statement of operations under Government control for the year 1918 will be submitted. You know those figures are not available until about six weeks afterwards.

The CHAIRMAN. Your back pay ran from January 1, 1918, and your increased rates began when?

Director General McADOO. About July 1.

The CHAIRMAN. There was an interval there of about six months.

Director General McADOO. Six months increase of rates to carry 12 months increase of wages and supplies.

The CHAIRMAN. And a twelve months period of increased wages.

Director General McADOO. Please keep this in mind: Six months increased rates—that is, freight and passenger rates—are supporting and carrying twelve months increases in wages, and increased cost of materials and supplies of all kinds. If the increased rates had been in effect on the 1st of January, 1918, instead of the 1st of July, 1918, we should have met all of the operating expenses, including these increases of wages, and have had a surplus of probably more than \$100,000,000. But, you see, we got the benefit of these increased rates six months after the increase of wages, and increased cost of supplies began to operate.

Senator LA FOLLETTE. And we have had a very serious winter.

Director General McADOO. We also had a very serious winter. You must also remember that when the railroads were taken over,

with the congestion then existing, and with the extraordinary paralysis of transportation in the eastern district, especially, enormous expenditures on the part of the Government were necessary to clear up the situation. I do not know how much it cost to clear the Pennsylvania System alone so that it would function; it was in very bad shape.

Senator CUMMINS. How much back pay did you expend after the 1st of July?

Director General McADOO. I am getting those figures for you. They are not ready yet.

Senator CUMMINS. I had supposed you had made your back payment before that time, covering the first of the year.

Director General McADOO. All back pay, included in operating expenses, for the period from July to October, inclusive, amounted to \$116,272,076. I am not giving you the details.

Senator TOWNSEND. How much was paid on July 1?

Director General McADOO. The back pay for the four months in question amounted to \$116,272,076. Statement of all back pay will be submitted to the committee.

(This question was explained by exhibit included as note on a preceding page.)

Senator KELLOGG. It ought to go by months after the rate increase, so that each month's statement can be recast.

Director General McADOO. We will give you the distribution of it by months, Senator. You can see, if you deduct those back payments from the four months of 1918, your operating ratio to income was 67.52 under unified control, and 67.94 per cent for the same period under private control.

Senator KELLOGG. What we want are the facts. They are not in your statement and we have had no statement of them here. You simply say the rates have been increased, but you do not say how much.

Director General McADOO. You are welcome to the information, and I shall be glad to supply it.

Senator KELLOGG. I notice in a publication of the Railroad Administration, a statement covering some 12 or 14 pages, of the central administration in Washington, we will call it, exclusive of the regional administrations, giving the heads of the various departments. Can you file a statement showing the number of employees other than those given here under each one of these departments?

Director General McADOO. Certainly. We have, I think, about 1,100 employees in Washington in the Railroad Administration.

Senator KELLOGG. I am speaking about those traveling all over the country and everywhere else.

Director General McADOO. I will give you a statement of the entire number of men employed.

Senator KELLOGG. Does the 1,100—or whatever it is—include the men under the direction of these heads, traveling over the country?

Director General McADOO. That does not include inspectors.

Senator KELLOGG. I want the inspectors and every other employee employed under the direction of this central administration—not the operating regional administrations.

Director General McADOO. We will give you that.

Senator KELLOGG. Are those expenses charged to the Government or charged to the railroads?

Director General McADOO. Those expenses are charged to the central administration here at Washington and Mr. Hines calls my attention to the fact that they are not included in the figures I gave this morning. We will include them in the final statement. They affect the results very slightly.

Senator KELLOGG. The costs of the central railroad administration are not included in the operating figures?

Director General McADOO. They are not included in the figures I have just given, but we will distribute them.

Senator KELLOGG. Another thing. The railroads over the country—the corporations—have been required to maintain their own corporate organization, their presidents, their executive officers, so far as they thought it necessary to look after their other properties, and their organization; they have been required to pay for those themselves?

Director General McADOO. Yes.

Senator KELLOGG. They are not included in your figures?

Director General McADOO. The corporate organizations are not an expense of the Federal administration.

Senator KELLOGG. When they were under private operation they had, of course, to pay their own expenses. All these things went in.

Director General McADOO. And that is included in their statement of expenses.

Senator KELLOGG. But it is not included in your operating expenses.

Director General McADOO. No; it is not a part of it.

Senator KELLOGG. The expenses of this central organization are not included in your figures?

Director General McADOO. No; they will be included in the statement we shall give you.

(Director General McAdoo later submitted the following statement covering the questions asked above:)

Central administration.

Number of officers and employees at Washington.....	1,193
Number of officers and employees outside of Washington (including 106 central administration traveling representatives, supervisors, and inspectors).....	227
Total officers and employees.....	1,420

Total pay roll for December, 1918..... \$280,600

Regional administration.

Number of officers and employees.....	1,079
Total pay roll for December, 1918.....	\$252,500

NOTE.—All figures are based on pay roll for second half of December, 1918.

Central administration.

(Officers and employees by divisions, December, 1918.)

	Officers.	Employees
Division directors.....	7	...
Director General's Office.....	2	173
Assistant Director General's Office.....	3	20
Division:		
Finance and Purchases.....	6	88
Operation.....	31	526
Public Service and Accounting.....	5	162
Law.....	9	61
Traffic.....	18	124
Capital Expenditures.....	2	41
Labor.....	3	52
Inland Waterways.....	1	11
Actuary.....	2	28
Board of railroad wages and working conditions.....	6	39

Senator KELLOGG. That is all I wish to ask.

Senator TOWNSEND. Now, Mr. Secretary, while I have some doubt—I do not care to have you discuss them—as to the right of Congress to extend this period for five years without being subject to the duty of confiscating the property, the whole of it, if the railroads refuse to enter into cooperation with you—and that is a serious question with me—but you have expressed your opinion about it, and I do not care to discuss it. What you are interested in and what I am interested in, in regard to this question, is this proposition of extending the time for five years. I am not clear that I got the force of your argument, that you will have less difficulties, or the people will have fewer difficulties at the end of the period, or at the legislative period of the congressional act, if you extend it five years. You are now meeting some difficulty, since the end of the war, because of the lack of full cooperation on the part of the railroads. They are questioning some of the things you are doing. Why do you think they will not question those same things at the end of three years, or four years, at the time when the Congress will probably be called upon to act?

Director General McADOO. I do not mean to say they will not question them at the end of that time. I think they will question them whenever the final settlement comes, anyway. If the period is very brief, it is natural that they should be unwilling to cooperate with you in entering upon a comprehensive program of improvements or in the purchase of necessary equipment, and that sort of thing, when they feel that there may be an advantage in holding back, or in preventing these things until they get possession of the properties again.

Senator TOWNSEND. What advantage could possibly accrue to them by doing that?

Director General McADOO. They might think that they can do the work cheaper, that the wages of labor or the market price of commodities may be less, or for any other reason. For instance, that they could force the Government to undertake essential improvements and finance them with the prospect that the Government might not be able to fasten the charge on the corporations. You know it might be possible to obstruct or delay vital improvements for a short time, say 21 months, when it would not be possible to

delay them for five years. The properties must be kept up during the five-year period. The owners would have to cooperate with the Government to keep them up because it would be to their interest to do so.

With Federal control automatically disappearing, as under the present law, the corporate officers might feel that it is to their interest to delay many improvements that should be begun and carried forward without interruption. Such improvements may not be susceptible of completion within the 21 months' period, and then, again, the corporate officers may not entirely agree with the Railroad Administration as to the form or character of the improvements that should be made. The Government is considering now many of the improvements that are proposed and will, therefore, either have to proceed upon its own initiative, where agreements can not be made with the corporations, and take its chances in litigation upon the liquidation of Federal control, or it will have to defer these improvement altogether until the fate of the railroads has been definitely determined.

There are other reasons why it would be more difficult to get corporate cooperation under so short a tenure, which would not prevail, I think, under the long tenure, because everyone would recognize, once it was determined that a test period of five years should be made, that it would be useless to try to postpone essential things for five years. It might be possible to postpone them for one or two years, but it would not be possible to postpone them for five years, and so I feel that once that thing were settled, the interests of the corporations and of the public, during the five-year period would be more harmonious than they would be under a shorter period; that things, in other words, would have to be done that could not be deferred, and that, thereafter, they would have to go along together.

I think one of the most serious things about the short control is the question of the morale of the organizations themselves. I do not believe that it will be possible to maintain as high a morale under a rapidly disappearing control as under a control that is more prolonged. At least for two or three years out of the five-year period there will be no disturbing questions for employees or officers.

Under the present condition the time is shortening very rapidly; 21 months is not a long time, and each month that passes brings the officers and men under Federal control nearer and nearer to the time when a change must be made; and if they have got to go back to private control, they do not know what their status will be, and I think that would be a source of continual ferment and anxiety to officers and employees alike.

Now, gentlemen, let me say this: I feel also—and I do not wish to over-emphasize it—it may be that I am not justified in my feeling—that it is always difficult, in the face of an impending presidential campaign to keep this sort of thing out of politics—at least to some extent.

If the railroads are held for this 21-months period with a rapidly diminishing Federal control the employees of the railroads will themselves become the objects of political solicitation for support for some particular plan or for some political purpose—and that does not apply to any one party; it will apply to all parties; everybody in

a political campaign, all candidates want votes, Democrats and Republicans alike; and the result will be that the employees of these railroads—something like two million of them—will be kept in a state of political ferment and solicitation during this period of time, which, I think, will be highly destructive of the morale and seriously demoralizing in its effects. One thing is certain, the railroads of the United States must be kept out of politics. I have religiously prevented the injection of any politics into the operation of these railroads during Federal control. The officers whom I have appointed were in nearly every instance the officers employed by the private corporations and they were selected without reference to politics; I do not know their politics; and the men whom I appointed as regional directors of the railroads, I do not know their politics either. I believe I know the politics of one of them, and he is a Republican. But I do not care what their politics are; they were selected solely because I thought they had the requisite ability to properly run these railroads in the interest of the people of the United States.

Now, if for political reasons, or from political incentive, or from political agitation and interference, or for the reason that there is to be a change of masters soon, a change from the mastership of Uncle Sam to the mastership of the private corporations and for other things that will enter into it under the short tenure, which I have described, there is a lowering of the morale of railroad employees throughout the country, it will work not only for inefficiency in operation, but it will also, because of that inefficiency, produce serious risks in the safety of operation, not only to those who travel but also to the commerce and industry of the country.

Senator TOWNSEND. And your proposal simply defers that for five years instead of two years; instead of settling it now you will have the same conditions to meet when you attempt to turn them over after your five-year experiment, will you not?

Director General McADOO. I do not think so, Senator, for this reason: If you have a period of five years of Federal control here is what, in my judgment, will happen: Immediately there will be a composure of all the present agitation and uncertainty in railroad circles about what is going to happen. There will be a definite objective to work to, and everyone will reconcile themselves to the situation.

Senator TOWNSEND. It seems to me that you are begging the question now; that you are just going to create more disturbance by extending the time five years and prolonging it over five years instead of two, because you know this, Mr. Secretary, that while we speak of "twenty-one months," you have 21 months after peace is declared, and we have at least two years, as we all know, to continue this experiment, if we try it now.

Director General McADOO. I am not begging the question; at least, I do not mean to. On the contrary, we are both expressing opinions about the same thing.

Senator TOWNSEND. Yes.

Director General McADOO. Concerning which I am willing to admit that there may be honest differences of opinion; because I can read the future no more clearly than you can, if as clearly. I am arguing from my experience with the railroads for the past year. Now, if you have a five-year control, it is certain that with respect to the

first three years of that control you can operate these railroads without any fear of changes in the management; let us say for three years, anyway.

Senator TOWNSEND. And only two now?

Director General MCADOO. And only two now. At the end of the two-year period everyone knows that the entire time is gone, while at the end of the first three years of the five-year period everyone will know that there are two more years to go within which to legislate for a permanent solution of the problem; but whether Congress legislates or not, all will know that it is a five-year test period fixed by law, will give stability to railroad operation, and will satisfy the officers and men alike that there is a definite tenure, and that they can go forward with their work on a definite basis of stability of control for a definite and sufficient period.

Senator TOWNSEND. Is your proposition that they should not be turned back under circumstances within five years?

Director General MCADOO. Yes; unless Congress legislates in the meantime. If I were going to enter upon a five-year test period, I should not reserve power to the President to relinquish them before the termination of that period. The purpose of the test would be a five-year tenure, definitely fixed.

Now, I believe that no one who has not been immersed in the railroad problem and saturated with it during the past year's experience with Federal control, can appreciate so well as one who has been immersed in it the value of stability and composure in the operation of the railroads. We have had, during the year of Federal control, constant ferment, due not alone to war conditions, but as well to the necessity of readjusting wages and putting them and working conditions on a stable and fair basis, as well as to many other causes, which I need not describe. I look forward, therefore, with a great degree of confidence to a demonstration of the benefits of unified control and operation during a period of composure and stability, which I know will develop many things of infinite value to the public.

It makes no difference to me, personally, whether the time be extended or not; I am merely putting forward my views for what they may be worth, as the result of the experience I have had.

Senator TOWNSEND. I understand that.

Director General MCADOO. Evidently it is in the minds of many that the operating results for a year, even under these war conditions, and in these abnormal times, are of essential importance in determining the future of the railroads. I read it in the papers constantly. The one thought that seems to be uppermost in the minds of some who write about this thing is: Was there a deficit this year or was there not? Now, if that is the important thing, if that is the crux of the situation—and I do not admit that it is, but I think it does have a bearing on it—and if so many people think it is, then let us have a fair test under composed and stable conditions, without ferment or agitation, of railroad operation under this unified control, which will demonstrate to the American people what the possibilities of the unified system are. I think such a test would indicate very clearly what the remedy should be.

One word more: I am sorry to make such a long statement, but I want to try to give you my perspective of it. Let us take the question of improvements. There are many vital and necessary improve-

ments that ought to go forward, but which can not be undertaken in a 21-months' or a two-years' period, with any hope of completing them and getting the benefits of the operating results in that time.

In a five-year period you could lay out an intelligent program of improvements. Many terminals could be consolidated; many essential grade revisions, for instance, could be made; curvature eliminations, or reductions of curvatures; double tracking and realignments of tracks; and increased and improved terminal facilities of various kinds could be provided. All of this takes time. With a five-year control you could plan comprehensively for a certain amount of important work and you could carry it forward and complete it so as to realize the benefits, at least partially, before the period expired, and by that time you would undoubtedly get remedial legislation by Congress, based upon adequate knowledge.

I should like to call attention to one or two very pregnant facts with respect to improvements. This is typical of what exists in the railroad situation all over the country. I quote from a report of the regional director at Atlanta, Ga., dated December 29, 1918:

On one of our lines an expenditure of approximately \$3,000,000 for installation of bridges which will permit use of modern power would yield a return of approximately \$500,000 a year.

That is, there would be a saving of \$500,000 a year.

On another line an expenditure of \$4,000,000 for new bridge work would enable annual savings in freight train-miles worth approximately \$700,000. The region is full of bridges which are carrying loads right up to the present capacity, even under the use of small, and therefore inadequate, locomotives. Much money can be profitably expended for bridges and larger power. Another direction in which large expenditures would bring fine results is in the matter of engine terminals and repair shop facilities. Well-maintained power is the heart of good and economical railroad operation. To-day's power can not be maintained in shops and roundhouses which were more or less out of date 5 or 10 years ago.

All over the United States you find similar conditions. Let me call your attention to the Boston & Maine Railroad, which has been in the hands of a receiver. The Federal Railroad Administration has been trying to further its proper reorganization. All over that system the bridges are too light and it is operating at a high point of inefficiency because it has not modern power, and it can not operate modern power or equipment over those light bridges. The substitution of bridges capable of carrying the maximum weight of locomotive, together with modern roundhouses, shops, and other improvements that are necessary, would, in my opinion, transform the Boston & Maine Railroad into a highly profitable system, and would enable it to furnish efficient transportation to the public and at lower cost than is possible to-day.

The same thing applies throughout the country.

Any sort of reasonable program of improvement and expenditure would mean, in my judgment, the necessity for a longer period than two years in which to carry it out.

Senator TOWNSEND. I understand that part of your proposal; and, as you say, one man's guess is perhaps as good as another's. I am inclined to believe that there will be more confusion than order as a result of leaving this question open in this way, when you must depend upon the cooperation of railroad men to make a success of whatever you do. Now, if you are right about it, or if those who

criticise the railroad men are right about it—that the railroad men are opposed to this—it stands to reason that they are not going to assist any more than is necessary in a program of that kind, unless it is to their advantage. If these things are to their advantage, it occurs to me that they will cooperate; but here is another point that I want to get to: Now, I do not say this with any idea of being fulsome in my compliments at all, because I am speaking the truth. I have great respect for your ability; I think that you are one of the shining examples of business ability connected with this administration; but you are going now to leave this Railroad Administration and some other man is coming in to experiment. It is his ideas that will be carried out, and not yours, in the future. Now, what those ideas are going to be nobody can tell, and it is all going to be carried out according to what he thinks is the proper thing to do; but, as Senator Kellogg and others have said, that will give us no light on other propositions that we are all interested in. We want to know what the real trouble is with reference to this situation—what the real truth of the situation is.

Now, I say it seems to me that while you have a theory as to what you would do, if you had the right of way and could control the whole situation, even that is subject to doubt in the minds of some of us, as to whether you could bring order out of chaos, just such as exists now, we believe, better with five years of uncertainty than you would with two years of uncertainty.

Now, I think it is a safe bet that this Congress is going to act upon this question, with such light as it has—and it is getting a great deal from you; there is a good deal of real, valuable information that can be obtained from your experiments during the last year, in spite of anything that may be said or any untoward circumstances that may be brought up, and I am sure we all appreciate that; but I am afraid that if you tie these roads up for five years now, and say to them that the President must handle them through somebody of whom we know nothing for five years, we will be farther away from a solution of this problem than we are to-day, when the question is a real live one, and when we are all interested in making a proper solution.

Director General McADOO. Permit me to thank you warmly for your generous allusions, which I deeply appreciate. I think, however, that it is not a question of who the Director General of Railroads may be; I think that does not make much difference, assuming always that you get a man who has ability and patriotism—and I think you can find plenty of such men to take this job.

Senator TOWNSEND. We do not always get them, though, Mr. Secretary.

Director General McADOO. Well, I believe you would certainly get one here, because the problem is so important that no man will be appointed who is not qualified. Of course, you have not asked me a question; you have stated your views.

Senator TOWNSEND. I was going to ask you some questions, but you brought out what I had in mind, and I just wanted to give you my reasons for wishing to have it brought out.

Director General McADOO. Yes; I should like to say, in reply, that I think what you have said presupposes ability on the part of Congress to find a permanent solution of this question within the very near future. Does it not?

Senator TOWNSEND. Yes; but do you think that is more of a presumption than the one that you propose, that we are going to be able to solve this problem through some unknown man in five years?

Director General McADOO. Yes.

Senator TOWNSEND. It is all presumption.

Director General McADOO. Yes; I do, for this reason, Senator: I think the complexities of this railroad problem are so great that it will be difficult to get a solution in a short time—a permanent solution. I believe that no legislation for a permanent solution should be had until it has been thoroughly and deliberately considered—dispassionately considered—based upon more real knowledge of the problem, now that we are on the inside of the room and can see what furniture is in it, what pictures are on the walls, and make a more complete inventory of the situation than we have thus far been able to get under war conditions. I believe that if you have a reasonable period for that sort of dispassionate consideration and test you will more certainly get a wise solution, because there is no use in having some half-baked scheme—and I do not mean that you legislators would of necessity evolve a half-baked scheme; I mean that you are less likely to get a thoroughly matured plan in a short time, when there is such a controversial atmosphere, than if you have a longer period for its consideration. In order to give stability to employment in railroad operation, and to give stability to the security holders' position, and to give stability to the general commercial and transportation situation, I think the five-year period is the best, notwithstanding the fact that Senator Cummins has suggested that a continuation of the control for five years on the present basis of compensation may reward some corporations unduly. I think we can afford to do that; I think we can afford to allow that to happen—to apply a general principle of compensation in order to get the benefits of the test.

Senator TOWNSEND. Suppose this does not work out to the satisfaction of the administration or of the Congress, or anybody else; then we are just as bad off as we were before. If we are going into this, ought we not to have five-year periods, or two-years periods, or three-year periods of experimentation with the various systems that are proposed—I mean, intelligently proposed—like the regional administration of roads, regional monopoly.

Director General McADOO. In order to get that kind of experimentation, Senator, you would have to have legislation.

Senator TOWNSEND. Yes.

Director General McADOO. To secure a permanent solution of this problem I do not see how you can escape certain preliminary determinations. If you are going to radically alter the railroad organism, as I think you must do in order to bring about a permanent solution, and radically alter the fundamental laws of this land, as you must do, to get a permanent solution, I do not see how you can succeed unless it is predicated first upon a larger knowledge of actual operating conditions in peace time than we have had under one year of war conditions, and second, until you have gotten a valuation of these railroads, which is now in progress, but which is not yet completed. Those two things, if nothing else intervened, make it necessary to prolong the time for consideration of the problem. If you were going to have a regional solution under Federal control of the kind

you have suggested, or a competitive solution between strongly consolidated railroad systems exclusively under Federal regulation as to rates and control, each presupposes, of necessity, a complete valuation and a test of the earning power of the properties with which you purpose to deal, as a basis of capitalization and distribution between the stockholders of the various companies.

Senator GORE. Mr. Chairman, I would like to ask Mr. McAdoo a question.

Senator TOWNSEND. I do not suppose that any system will be adopted calling for complete and permanent control of the railroads that will not be subject to revision. There will be amendments made to any law that is passed; there is no doubt about that. Excuse me, Senator Gore.

Senator GORE. Yes, Senator. Shall I go ahead with my questions?

The CHAIRMAN. Yes, Senator Gore.

Senator GORE. The Sherman antitrust law has been construed to prohibit mergers and consolidation on the part of the railroads. I would like to ask if you do not think the railroads should be allowed to merge and consolidate, at least subject to the approval of the Interstate Commerce Commission?

Director General McADOO. Are you talking about preserving the diversified control—private control under present forms, and then permitting from time to time consolidations?

Senator GORE. Yes, private control, subject to the right or adding the right to merge and consolidate in accordance with the public interest, gravitating toward two or three national systems, I would say.

Director General McADOO. I should, myself, prefer not to do that—not to make that change now, because I think it would not meet the exigencies of the situation. It would be merely a sort of palliative to meet certain local conditions I think it is better to deal with the problem comprehensively while we are dealing with it.

Senator GORE. I was really trying to isolate the present situation, under one control, and to place ourselves back in the status we were in when we took them over. The Sherman antitrust law, prohibiting merger and consolidation, has prevented the unification of the railroads of the country, has it not?

Director General McADOO. It has prevented unification under private domination and control, yes. I think that is a very different thing from public control.

Senator GORE. And that law would have to be modified before it could be done under private control?

Director General McADOO. Precisely; and that is one of the controversial points you will have to consider when you legislate.

Senator GORE. I would like to ask, now, whether the railroads, if permitted to merge and consolidate, should be given a free hand, or should that right be exercised subject to the approval of the Interstate Commerce Commission?

Director General McADOO. You mean in a permanent solution of the problem?

Senator GORE. We will assume that permanent Government control is, for the moment, out of reach, and that we are going back to private control.

Director General McADOO. You mean merely to amend the Sherman antitrust law so that mergers of railroads may be permitted?

Senator GORE. No; I am going to ask you about certain other laws and restrictions, but I want to get your views on the Sherman antitrust law first, because that, being first in point of time, was the chief obstacle in the way of mergers and consolidations.

Director General McADOO. Well, I think that would have to be undertaken with a very great deal of care, and I am not so sure that I would favor the extension of such power to any commission or body or authority at this time, because I believe it is much better to undertake to work out a permanent solution of the whole problem in a more comprehensive way.

There is a grave danger in permitting railroads to consolidate even under regulation. The trouble is that the strong companies will not at any time be willing to absorb weak companies or short lines which can not contribute to their profits. The result would be that the strong corporations would continue to strengthen themselves wherever they could take other lines on a profitable basis, and this would tend more and more to isolate the weaker companies and the short lines and to weaken them still further. The effect of this weakening would be felt by the people who are dependent upon the weaker lines or the short lines for service. The true test must be service to the public and no policy should be pursued and no solution should be considered which does not provide that the public along the line of the weak roads as well as along the line of the strong roads shall be given adequate and decent service. Otherwise, the development of the country along the weaker lines and the short lines will be hampered. That is one of the great troubles about the railroad situation to-day. The strong companies, under competitive conditions, are growing stronger and making it more difficult for the weak companies to survive and render any service to the patrons along their lines. In a final solution of the railroad problem the people along the weak lines as well as along the strong lines must be assured of ample service.

Senator GORE. Yes. But if the right is to be given to merge and consolidate, do you think it should be given to the railroads without any supervision, or do you think it would be better to make the exercise of the right subject to the supervision of the Interstate Commerce Commission?

Director General McADOO. It would have to be under some adequate supervision, of course. I would not be willing that they should have it, if at all, except under proper public supervision and regulation.

Senator GORE. The interstate commerce act prohibits pooling on the part of railroads. Do you not think they should be given the right to pool traffic and earnings, subject to the approval of the Interstate Commerce Commission, isolating for the moment the question of the propriety of complete Federal control?

Director General McADOO. There again I think it is a question of whether or not you want to try some inadequate expedients—apply a few poultices—or whether you want to attempt a comprehensive and permanent solution of the problem. My own preference is in the direction of a permanent solution rather than a makeshift.

Senator GORE. Of course, Mr. Secretary, all these things are matters of evolution. You hardly ever get a ready-made solution of so vexed a problem all at once.

Director General McADOO. In the case of the Federal reserve system we had controversy and discussion of the financial situation of the country for generations almost.

Senator GORE. Yes.

Director General McADOO. And we paid an enormous price for our failure to deal with it comprehensively.

Senator GORE. That is true.

Director General McADOO. Perhaps we were not ripe for it.

Senator GORE. Oh, we knew we were paying the price all the time, and we knew that it would take a long time to do it.

Director General McADOO. But we finally reached a point where it was possible to get action. The thought of the country had sufficiently crystallized to make it possible to get action. And here the thought of the country is crystallizing, but I do not think it has sufficiently crystallized to secure promptly a permanent solution, unless the solution, whatever it may be, has the support of public opinion, it will be no solution. It will not survive.

Senator GORE. Yes; I think we shall have to feel our way. Now, I want to ask you about the law giving shippers the right to route their freight. Do you think that right on the part of the shipper is consistent with any sort of scientific or uniformly efficient control, either under private or public direction?

Director General McADOO. I could not give a final answer to that. I think there are cases, under competitive conditions, where it is of advantage to the shipper to have the right to route his freight. On the other hand, I think its abuses and wastefulness are far greater than its benefits.

Senator GORE. But it does subject any contemplated national system to the control of the private individual, does it not?

Director General McADOO. Yes; but I do not think it ought to be permitted under Federal control.

Senator GORE. He can direct the routing of his freight without any reference to congestion or efficiency?

Director General McADOO. Yes. I repeat that I do not think it should be permitted under Federal control.

Senator GORE. The railroads were subject to these legal restraints, which made it legally impossible for the railroads to meet this war emergency—the impossibility of pooling their traffic and earnings, and the impossibility of routing traffic and freight prevented the railroads from meeting the emergency. Do you not think that is true, Mr. Secretary?

Director General McADOO. I do not think it was wholly that; it had a part in it. The selfish interest of the competitive carriers made their cooperation in the public interest impossible, regardless of the law.

Senator GORE. It would not have been possible for you as Director General to have met the emergency if it had been necessary for you to respect the antipooling law and the right of shippers to route their freight?

Director General McADOO. No; certainly not.

Senator GORE. And those constituted legal impediments in the way of the railroads?

Director General McADOO. The legal impediments in the way of private corporations meeting the war emergency plus the fact that their competitive interests were bound to operate—however patriotic they might be—were inherent difficulties in the situation and made it impossible for them to meet the emergency.

Senator GORE. Yes; that is a very persistent factor. Do you not think that the confusion and congestion was, to a large extent, due to conflict in priority orders?

Director General McADOO. No; I would not say "to a large extent," although to some extent it had to do with it. I think the inability to use the combined facilities in common under one direction was more responsible for it than anything else. This could not be had under private control. Their selfish interests would prevent cooperation. They would never be willing to give business to a competitor.

Senator GORE. Yes; I think you are right about that. I want now to ask you your estimate of the comparative value of two or three national systems of railway covering practically the whole country, and the suggested regional systems. Do you not think that if we had two or three national systems serving practically every part of the country, so that there would be more or less competition, the service would be better than any arbitrary and artificial division of the country into regions?

Director General McADOO. That may be, Senator. That is a part of our problem, and that is the reason I want a further test. For instance, I think if you were going to create two or three national systems to render that service, we should know more about the earning and transportation potentialities of these railroads, so that the systems could be constructed in the proper way.

Senator GORE. Do you not think that their demonstrated earning capacity before the war, under normal conditions, would be better than an earning capacity demonstrated under any sort of control that did not really reflect their actual earning capacity, but rather an earning capacity that was due to supervision under an emergency?

Director General McADOO. I decidedly do not think so. I think it is better to know what our problem is under the conditions with which we have to deal than to predicate our opinion wholly upon different conditions existing some years back, and which do not reflect the true situation at present.

Senator GORE. Do you think that earnings revealed under Government supervision and control would really be a fair test of the earning capacity of the railroads, upon which to base any judgment as to what the compensation of the railroads should be?

Director General McADOO. I think it is the fairest test we could get. I think it would be the most impartial test if made under peace conditions. If you are going to constitute any national competitive systems under Government regulation, the question of capitalization of those systems must be determined, and that refers to the earning power, and, in addition to that, the question also of the exchange of securities, or their conversion.

Senator GORE. Yes; but here is the point I am making, Mr. Secretary. Under Government supervision the earnings realized by a railroad might not have any reference to its natural advantages or to the country it serves, or to the efficiency of its service, because its traffic is largely controlled by an outside authority; and I do not say that would be done; I am certain it would not be done, but it could be done; and the earnings of a railroad might not have any relation to what its capitalization ought to be, because they come from an authority that does not depend upon the real demands of commerce.

Director General McADOO. But the control of traffic consists merely of control of the transportation of the traffic. The traffic originates in different parts of the country and must be transported from one place to another.

Senator GORE. Take two railroads competing with each other and connecting two important towns, and under Government control one of those roads might take all the traffic, and thereby show all the earnings, while the other might show a deficit, whereas its operations in peace times would at least reflect the natural advantages of the two roads, or the respective efficiency of the service?

Director General McADOO. Those are mere details, Senator. The great problem is, of course, the results of national or unified operation, and its effect upon the general economy of the country.

Senator GORE. I think you are right on that; it is to bring about a situation where the traffic of the country, taken as a whole, will be efficiently handled; that is undoubtedly true. But it did not strike me, if I may be allowed to say so, that the earnings shown under Government control would really reflect the natural earning capacity of the railroad, because it might be controlled by other considerations than those of commerce or the immediate needs of the territory traversed.

Director General McADOO. Well, certainly that is true of the war period.

Senator GORE. Yes. Now, do you not think that this regional proposition to divide the country into four or five regions would be purely arbitrary and artificial and would not necessarily have any relation to the commerce of the country or to the commerce of the community?

Director General McADOO. No, I do not think that, that is a part of the study; it is a part of this problem; it is one of the features we have got to learn more about, I think.

Senator GORE. It looks to me as if that is self-evident, and that you would not have to study it. I have seen a suggestion that we divide the southwest by running a line west from the Mississippi River, and making the part north of that line one region, and the part south of that line another region.

Now, there is no need for that in the very nature of things, and I should say that such a division would not correspond at all with the Federal Reserve System.

Director General McADOO. I do not think that anyone has seriously proposed that, Senator. I think the regional system has merely been suggested to illustrate certain things in rather an arbitrary and hypothetical way.

Senator GORE. It seems to me that objection would inhere to any proposition for dividing the country into regions because the commerce is national, and its movement from the most remote point in one section to the most remote point in another section should be facilitated, and that is why I was suggesting two or three national systems. It ought to be either one national system or two or three national systems. It looks to me as though the suggestion for a regional system is fundamentally and unescapably bad.

Director General McADOO. Your views and observations indicate the complexity of the problem, and are, to my mind, an argument in favor of the five-year period, where we could make the test, and arrive at a conclusion as to the reconstruction of the railroad map of the United States. I think in any permanent solution you have got to deal with the existing railroad organizations as well as with existing railroad laws. You will also have to reconstruct the railroad map. Parts of existing systems may have to be transferred to other systems in order to get well-balanced transportation facilities.

Senator GORE. Do you think if the railroads were permitted to merge or required to merge into one national system, under private control, which would, of course, eliminate competition as to service, that the efficiency of the service could still be maintained under Government regulation?

Director General McADOO. That presupposes a determination by somebody of the lines along which that should be done. In other words, it means a reconstitution of the railroad system of the United States. That will require legislation.

Senator GORE. Yes.

Director General McADOO. I could not answer that unless I knew what it was proposed to do, specifically.

Senator GORE. Well, here is what I had in mind: If we eliminate competition as to service, real and nominal, then we have got to rely on Government supervision, or on the good will of the railroads for efficiency in service.

Now, let us assume that we can not rely on the good will of the railroads; do you think the Government may be relied upon to insure efficiency of service where competition was eliminated?

Director General McADOO. I think it may be, without doubt. I certainly should not be willing to have competition done away with, unless there was substituted for it some very strong Federal control or some other form of public control.

Senator McLEAN. Right on this point, Mr. Secretary, just a question as to whether it is wise to conclude the operation of Government control at the end of 21 months, or to extend it, as you would do. Now, assume that we grant your request—

Director General McADOO (interposing). "Suggestion" would be better.

Senator McLEAN. Or, rather, that we conform to your suggestion and try it for five years, and it fails. Now, just what will we have demonstrated?

Director General McADOO. We will have demonstrated a failure. We will have demonstrated something at least.

Senator McLEAN. Will we have demonstrated that Government ownership is a failure if we shall have demonstrated that any permanent system that is now suggested or believed in by anyone who

has made a study of this subject is a failure? In other words, can you test one system by trying another?

Director General McADOO. Nobody can say what the result of any test will be. I do not know what the result of the test for 21 months will be. We have entered upon that, under the present law; that is, we have provided a maximum of 21 months. There is no guarantee; and nobody can assure you or tell you in advance how that is going to turn out. In other words, why should we be afraid to make a test because we can not tell in advance what it is going to produce? The object of the test is to get light. I can not say what is going to come out of this test; but I know that this will come out of it: We will have a period of composure, in which we can devote ourselves to getting as much knowledge as possible, although no one can say what the outcome may be.

Senator McLEAN. You have made that very clear, and I do not wish to prolong the discussion, because you have been over it several times. But suppose it fails; in your opinion, will it then have been demonstrated that both Government ownership and Government control are failures?

Director General McADOO. It would depend upon the conditions under which the test was made, Senator, and as to how it was handled. I can not say.

Senator McLEAN. Would it demonstrate in any way that Government regulation of privately owned roads was a failure?

Director General McADOO. I think it would demonstrate something; I do not know what.

Senator McLEAN. But would it not be conclusive?

Director General McADOO. I think it would be conclusive. I think a five-year control of the railroads would give us a conclusive result in some direction; but just what I do not know. That is my judgment about it, but it is merely an opinion.

Senator McLEAN. It seems to me that the best way to learn to play on a piano is to practice on a piano rather than on a violin. That is to say, we have a hybrid, mongrel situation here now in vogue that nobody expects can be made permanent. We have Government control—absolute possession and control of private property. I do not think you believe that system can be made permanent. It was forced on us by the misfortunes of war, and it was the only thing that could be done. Now, assume that we try the five years, and that it fails. Will that in any way convince the Members of Congress who are now in favor of Government ownership that Government ownership has been proved a failure? That is the point with me. It seems to me they will say at once that it proves nothing, and they will quote your language that you have given us here in your statement, that under the present system your orders are challenged by these officials, you are subjected to interference by State commissions, and their orders, and that you can not rely upon the morale of the organization; and, in answer to Senator Townsend's question, you said you were not at all certain whether that situation will be bettered by the five-year extension or not; that you hope it will be.

Director General McADOO. No; I expressed the opinion unqualifiedly that it will be bettered. That is my opinion. No man can say with absolute certainty what the future will bring forth, but that is my best judgment as a result of the experience we have had in the past year.

Senator McLEAN. My fear is that you will not convince the partisans of either school—Government ownership as opposed to private ownership under decent Government regulations—that the test has been conclusive; and I am as anxious as you are, if it be possible, to get from this ill wind of war a solution of the railroad problem. Now, we will assume that the railroad managers take issue with you and controvert—I do not know whether they will or not—emphatically your faith in the five-year extension, and they say: "If we are permitted to retain possession of our roads within a reasonable time we can demonstrate to the people of the country that we can unify this control and run our roads, and meet every need, under reasonable Government regulation, which we have not had for the last 30 years."

Director General McADOO. Well, that implies new legislation, of course, of a comprehensive kind. I don't think it is attainable now.

Senator McLEAN. Certainly; but if we grant their request and try to return the roads within a reasonable time, and they fail, then we know what the next step should be; but until we give them an opportunity to take their property and manage under reasonable and decent regulations, I do not see how you can decide that their system would be a failure.

Director General McADOO. Your argument is to turn the railroads back, as I understand you, under some radical revisions of existing laws?

Senator McLEAN. I think it possible, with their advice and the assistance of trained minds, who have had experience in these matters; these men who have had experience for years, they probably know more about it from their experience than any of us—I should assume so—they have had practical railroad experience, and they say, "If you will extend this time—" I do not know whether they will or not, but assuming that they will—"it will make the situation worse than it would be if you returned the roads to us within a reasonable time and gave us an opportunity to demonstrate what we can do under reasonable regulation."

Director General McADOO. Senator, can you guarantee that there is no risk in doing what the railroad executives want you to do or may suggest that you do? Can you guarantee that the judgment of the railroad executives is less fallible than others?

Senator McLEAN. No; but it seems to me that sooner or later—

Director General McADOO (interposing). Just a moment. May I say that any plan you may propose carries with it the usual risks of human fallibility? No one can guarantee that any plan, either to turn the railroads back under such suggestions as the railroad executives may offer, or what not, will be successful any more than you can say that this five-year test period will not be successful. This you must bear in mind, that in dealing with this problem you have two interests to consider. One is the public interest, the other is a private and selfish interest, and it is the public interest that we should all steer by constantly, without respect to any private or selfish interest of any sort. Now, opposed to the public interest, so far as this solution goes, is the natural and selfish interest of the owners of these properties, who are thinking primarily of their own ends. I do not complain of that; it is a natural thing for them to think about; but I am not at all sure that a proposal from these most

interested—that is, from those who have a selfish interest to serve—is in the public interest. I do not use the term selfish in any sinister sense; I use it in its natural sense only. It is not reasonable to suppose that the owners of these railroad properties are going to think first of the public interest in any solution they propose.

Our duty is to consider the public interest and to make every other interest subservient to the public interest. I think that the public interest will be best served and that the interest of the railroad owners will be equally served by this test period, because I am satisfied that there will come out of it a solution based upon knowledge and not upon theory or speculation, which has formed so much of the discussion we have engaged in here. There will, in my judgment, come out of the test period sufficient clear light to enable us to determine whether, as an economic proposition, it is best for the American public and for the owners of these railroad properties that there shall be either (1) an altered form of private control under a superior form of Federal regulation, or (2) exclusive Federal control of the railroads, or Government ownership.

My judgment of the railroad situation is that the American people are entitled to a fair test of Federal control under peace or normal conditions. We have spent large sums of money to win the war, and part of that money has been used to gain some experience in the unified operation of the railroads of the United States, an experience necessitated by the war and by the incompetency and inefficiency of private control under existing laws and conditions. I am not suggesting that anybody should be blamed because the laws are as they are or because competitive conditions under private control were as they were. I am speaking only of the inefficiencies and deficiencies of the system and not of individuals.

We have expended a great deal of Government money on improvements for the railroads and for equipment during the war period. We may have to carry for some time a part of the cost of these improvements and this equipment before we can liquidate this cost and secure repayment from the carriers.

As I said in my testimony before this committee one year ago, I felt sure that the Government would have to expend large sums of money for the improvement and betterment of railroad properties during the period of Federal control and that I was sure that the Government would have a better chance to secure the payment of its advances to the railroads while in possession of their properties than when out of possession. Having expended so much money on the railroads and having carried forward this experiment in unified operation to a point where I now think we can enter upon its last stages with obvious benefit to the public interest, it seems to me a pity to throw away all that we have gained and to attempt a hasty solution which may not be a permanent solution at all, but a mere makeshift, and which may injure the best interests of the American people irreparably at a time when we are facing a new world condition which demands that America shall be on the alert and not only look forward but go forward without hesitation or delay.

Another important element in the situation is the fact that more than a billion dollars of money belonging to the people of the United States have been spent in the building of a great merchant fleet. Under the provisions of the shipping bill, this merchant fleet is to

be controlled by the Government for five years after the return of peace. We must not permit the money expended on this fleet to be wasted. We must conserve that investment. Why are we building a great merchant marine—for fun? Not at all. We are building it for the purpose of operating it and carrying the American flag to all parts of the world so that we may secure for American producers and American labor the fair rewards of toil and enterprise by getting our share of the world's markets for our products.

Not content with spending already more than a billion dollars of the people's money on a merchant fleet, we are spending hundreds of millions more to increase that fleet by turning out the most modern types in order that they may be operated successfully in friendly rivalry with the other great powers of the earth. After doing all this, it seems to me that if we deliberately surrender the advantages we now have in the unified control of our railroads, so that we can not make them function with our great merchant fleet, then we will be deliberately taking risks we are not justified in taking, risks for which the American people would condemn us hereafter, if we took them with our eyes open to the facts. Of course if we did it without knowledge of the facts, that would be another thing, but here are the facts facing us—an unexampled opportunity for world leadership in moral and financial influence and in commerce and trade. It seems to me that it is our plain duty to preserve the mobilized energies and industries of America in the form of railroad control for the five-year period and use our unified railroads during the great time ahead of us and coordinate and synchronize their operation with our great merchant fleet, giving to all the ports on the Atlantic, Gulf, and Pacific coasts adequate rail facilities to meet adequate shipping in those ports, so that the development of our country may be carried forward homogeneously and symmetrically and every part of our people be permitted to share in the great prosperity which is now opening up to us. If we control the railroads and the ships, we can develop all the ports advantageously, distribute the traffic of the country over all the facilities so as to avoid needless congestion and loss and have a unified system of rail transportation on land and ship transportation on the high seas that will bring a new and greater era of prosperity and happiness to the American people than they have ever before enjoyed.

Senator WATSON. Mr. Secretary, you come to us with just one definite plan now; that is, a five-year proposition?

Director General McADOO. Yes; one suggestion.

Senator WATSON. If Congress votes that down, you have no suggestion to make whatever as to the form of legislation that should be enacted with reference to the railroads?

Director General McADOO. No; I have not.

Senator WATSON. Not now. Your one proposition is the five-year proposition, and beyond that you do not look—that is, at this time—and you have read your paper here as a justification of your administration and as an argument for the continuation of that form of administration?

Director General McADOO. Yes.

Senator WATSON. Then, of course, to give us information?

Director General McADOO. Principally, I hope, for information, Senator

Senator WATSON. Well, that is all right. If it contains information it must be something of a justification, from your standpoint. Now, you have not in mind any system, if Congress shall not adopt your plan, for the future guidance of Congress that you wish to recommend?

Director General McADOO. No.

Senator WATSON. Whether or not it be Government ownership, or whether or not they shall be cast back without any legislation, or whether it shall be regional control or under the control of one man or in the Interstate Commerce Commission—you have no recommendation whatever to make with regard to that, and the only recommendation you make to us is the five-year proposition?

Director General McADOO. Precisely.

Senator WATSON. That is what I wanted to know.

Director General McADOO. I reserve my judgment until I get further light. Conditions may develop to a point where my own thought will be matured on the subject; but as I shall not be here officially to communicate it to you, I am afraid that I shall not be able to give you the benefit of it.

Senator GORE. Do you think that your argument in favor of unified operation of the railroads would justify the extension of that policy to the ships?

Director General McADOO. We already have the ships.

Senator GORE. Whether the railroads continue in public or private operation, ought we not to extend that control and operation to the ships so that the transportation of the country, both inland and seabound, would be under unified control, either public or private?

Director General McADOO. Either one unified control or both branches under Federal control for the time being, so that they could be made to thoroughly reciprocate with each other. You have unified control by the Government over shipping through the United States Shipping Board and the Emergency Fleet Corporation now.

The CHAIRMAN. Mr. McAdoo, may I ask this question: From the experience you have had—and it has been a practical one, and right on the point that you mentioned—is it your opinion that you can get the proper coordination between the Government control of vessels that we now have and the railroads if the railroads should go back under private control?

Director General McADOO. I do not think you could get the proper coordination under private control. I do not think you could get the proper distribution of traffic to the different ports of the United States in such a way as to give the national commerce a more diversified and advantageous development. I think it is essential to preserve Federal control of these railroads during the five-year period, if there were no other reason for it—and there are many other reasons for it, in my judgment—in order that the railroads may be thoroughly coordinated with shipping and the traffic of the country may be distributed to the various ports of the country on the Atlantic, Gulf, and Pacific coasts in the most economical and advantageous way.

Senator GORE. If you would let the railroads organize a holding company and take over the ships—the merchant marine—do you not think then they could work out a unified system?

Director General McADOO. I do not know about that. That would depend upon the plan; and then, again, I would not be willing, with-

out further light, to see all the railroads and all the ships of the United States under private control, even under some form of Government regulation. I think it would be taking a very big chance.

Mr. Chairman, if I may be excused now, if you have finished—I have some very important engagements.

The CHAIRMAN. Yes, Mr. McAdoo, we want to complete our hearings—

Senator CUMMINS (interposing). There is a question or two that I would like to ask, if I may be permitted.

Director General McADOO. Unfortunately, Senator, I understood that I would be required for an hour, and I made some very important engagements.

Senator CUMMINS. My questions will be very short.

Director General McAdoo. Very well.

Senator CUMMINS. I am interested in your thought that if we would extend the time of Government operation for five years we would have political quiet upon the subject in the meantime. Do you really think that?

Director General McADOO. I think you would have much more than if you do not, Senator. I do not think we will ever have political quiet in America.

Senator CUMMINS. You have no reason to believe that the agitation with regard to various systems or methods of control would not go on just the same?

Director General McAdoo. It would not go on just the same during the five-year test period.

Senator CUMMINS. You can not stop that. The people of this country are going to determine this question, sooner or later?

Director General McADOO. That has been my argument, Senator. That is what I say—that the people should be permitted to settle this problem, but that they should have adequate knowledge derived from a five-year test period to do it intelligently. Those who fear, for instance, that further test or experimentation would mean Government ownership seem to think that if you deny that further experimentation you will stop the discussion of Government control. You can not stop the discussion, of course, nor would it be wise to stop it if we could.

Senator CUMMINS. No.

Director General McADOO. I think it is possible, by extension, to have a test period under composed conditions that will not make it an acute political issue in some presidential campaign. The economic problem is so vital to America that it ought not to be settled in the heat or passion of any political campaign. By political action it will necessarily be considered and dealt with finally, but I am talking about trying to settle it in a partisan political campaign.

Senator CUMMINS. I do not know anything about the partisan turn it may take; I am not speaking about that; but all great economic questions like this one must be determined politically.

Director General McADOO. By political action ultimately.

Senator CUMMINS. Your notion that this would not be an issue or might not be an issue in the campaign of 1920, if we were to grant the five-year extension, is rather novel to me. I think it is bound to be one of the great political questions.

Director General McADOO. My feeling about it is this: That it would not be so acutely a political issue under the five-year extension as it

would be under the 21 months' control; and I think if it is a political issue eventually—as it undoubtedly will be eventually, and I think that all of us—and we are all politicians in America in the sense that all vote and all have a right to a voice in the Government; that is the beauty of democracy—would be better informed and better able to express an opinion on the railroad problem after a five-year, or even after a three-year test, than we are to-day. I think, therefore, that it would not be an acute political issue in the next campaign, because if Congress should determine upon a test period of five years, the public in general would accept it in good faith, and would be willing to go forward and complete the test period before attempting a final solution.

Senator CUMMINS. I do not know why you want a test period.

Director General McADOO. I am afraid I can not convince you then, Senator. I have given my reasons at length.

Senator CUMMINS. You are thoroughly convinced of the advantages of unification? There is no question about that?

Director General McADOO. Yes.

Senator CUMMINS. Nothing could happen that would shake your confidence in that principle of operation?

Director General McADOO. No. I am in doubt as to the form and character of it.

Senator CUMMINS. Why do we not go immediately about getting it? Why do you not advise Congress to go ahead and secure it now?

Director General McADOO. I have no objection to your doing it, if you can find a solution. My argument is that you will not have time within which to do it, nor do I think you have sufficient information, with the brief test we have had under war conditions, to illumine the subject as much as I think it should be illumined, and as much as I think it will be illumined by a longer test.

Senator LA FOLLETTE. In other words, if I understand you, Mr. McAdoo, the emphasis that is put upon the comparative cost of operation under Federal control with operation under private control, as we had it before, is an evidence of the importance of that feature, which is to be made an argument, and perhaps a controlling one, in the settlement of this question? If I understand you, you would like to see that experiment extended over a sufficient period—

Director General McADOO (interposing). Under normal conditions.

Senator LA FOLLETTE (continuing). Under normal conditions—for the comparison now is not made under normal conditions. A comparison made under such conditions would make it of some value in determining whether Federal control, as it has been administered, is better than the old condition, or better than the old condition with any modifications which have been suggested to the present time.

Director General McADOO. Yes.

Senator POINDEXTER. Is not your recommendation somewhat in conflict with the President's recommendation of the 2d of December?

Director General McADOO. I do not think so.

Senator POINDEXTER. My understanding of his address to the Congress was a very urgent plea that this problem be solved very speedily, in order to remove the uncertainty. Now, your recommendation is to continue the experiment longer than the present term. I would just like to recall what the President said.

Director General McADOO. I am familiar with it. It may be that we would make more speed under a 5-year extension than otherwise.

Senator POINDEXTER. He argues in his address to the Congress that the necessary expenditures and improvements on the railroads can not be financed until a permanent settlement is arrived at; and yet you recommend this period of five years, during which larger expenditures would be necessary?

Director General McADOO. The President must have had in mind, of course, corporate expenditures, unaided or unsupported by the Government in any way.

And I should also like to have permission to attach, as an exhibit, a chapter from my forthcoming report to the President on the operating features of the railroads for the past year. It covers the Division of Operations and is just now in form.

The CHAIRMAN. Yes; we will be very glad to have it.

Director General McADOO. It goes more into detail on some of the points.

Senator GORE. How soon will that report be available?

Director General McADOO. It will take several weeks before I can complete it. It is very voluminous and is in process now.

(Note: Several chapters from the Director General's annual report to the President appear at the end of this pamphlet.)

The CHAIRMAN. Mr. McAdoo, whom do you suggest to the committee to be heard? We want to complete our hearings on the administrative side of this question.

Director General McADOO. I do not know of anyone else at the moment, except as to any questions of fact that may arise during the progress of the hearings. I would suggest, however, that further testimony from anybody connected with the Railroad Administration be given later, somewhat in the nature of rebuttal of things that may be presented in the meantime by others who may come here. You may need further information from the Railroad Administration, and in that event it can be represented by some appropriate person, whose name will be given to you at the proper time. I speak with some reserve about that, because I expect now to divest myself of my railroad robes of authority, and my successor will have to determine whether or not he desires further hearing for the Railroad Administration.

Senator LA FOLLETTE. May I ask if some of your staff will be in attendance during further hearings on this subject?

Director General McADOO. Yes. I was going to ask Judge Payne to be in attendance, but he has been laid up with influenza. I presume he will be here next week; if not, we shall try to have someone else in attendance.

Senator POMERENE. The burden of your testimony has been to show the necessity of greater unification in the operation of the railroads. Now, if you or your staff have considered what additional legislation should be necessary to carry that out, I would like to have the benefit of their views.

Director General McADOO. We have not considered it, Senator. That is a matter of form and substance, and we have not prepared any plans.

The CHAIRMAN. You have no suggestions to make as to any modification of the present law, to meet your five-year plan?

Director General McADOO. The amendment providing for the extension would be a very simple matter. It would provide the extension of time, and for an additional revolving fund to take care of the situation.

The CHAIRMAN. The reason I suggested to you having someone here, if you desire to have any of your force here, is because we want to continue the hearings on Monday, and according to the program outlined by the committee, succeeding you will very probably be the railroads, and if you have no other to suggest on Monday, beginning at 11 o'clock, the committee will meet.

Senator CUMMINS. At what time?

The CHAIRMAN. At 11 o'clock.

Senator CUMMINS. Mr. Chairman, I want to make this suggestion; we have got to divide our time between the sessions of the Senate and the sessions of this committee, and I think it would be very helpful if we could reach some definite conclusion as to that division now so that we would know when the committee would meet.

